INFF | Facility

Making finance work for people and planet

How countries are building their sustainable finance ecosystem through integrated national financing frameworks

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Executive summary

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The INFF Facility is a joint flagship initiative of the United Nations Development Programme (UNDP), the United Nations Department of Economic and Social Affairs (DESA), the United Nations Children's Fund (UNICEF), the Organisation for Economic Co-operation and Development (OECD), the European Union and the Governments of Italy, Spain and Sweden.

Foreword

At the Sustainable Development Goal (SDG) Summit in September 2023, the United Nations Secretary-General António Guterres emphasized that reform of the "outdated, dysfunctional, and unjust" international financial architecture would be a "game-changer in accelerating SDG progress". That includes unburdening countries from the crushing weight of debt at a time when low-income countries are likely to allocate 1.4 times more to servicing debt interest payments than to health care. Many developing countries are not waiting for change to happen, but are taking the reins of their own development pathways. That is exemplified by the design and implementation of integrated national financing frameworks (INFFs) by over 85 countries, which hold the potential to channel billions of dollars to the SDGs, the Paris Agreement and the Kunming-Montreal Global Biodiversity Framework. Introduced via the 2015 Addis Ababa Action Agenda, these INFFs—with financing strategies that set out sequenced actions to finance national development plans at their core—are helping to redefine the ecosystem within which public and private finance is channelled and invested.

Countries are leveraging their INFFs to overcome short-termism, boost climate resilience and investment in social priorities, and unlock brand-new sources of public and private finance, from both domestic and international sources. These finances can be channelled to vital areas like tackling poverty, at a time when one in six children globally are still trapped in its web. A total of 13 national and subnational governments now have an operational financing strategy, and over 50 countries are implementing reforms to financing policies, instruments and institutions shaped through their INFFs, which are embedding sustainable development into government budgets, financial markets and private sector operations. They are also catalysing SDG-aligned investment and deploying new and innovative SDG-aligned financial instruments. Take Benin, for example, whose inaugural €500 million SDG bond issuance, the first from a least-developed country, was followed up by mobilizing a further €350 million through an innovative loan instrument, the first of its kind in Africa.

INFFs are also deepening transparency, accountability and collaboration for a more inclusive and sustainable financing ecosystem. To take just one example, consider the Maldives, which launched its gender-responsive climate financing strategy to drive a just energy transition. Analysis of such reforms implemented by 17 countries has found that US$16 billion in new finance has been leveraged for investment in sustainable development and alignment and scope for alignment of more than $32 billion—initial emerging outcomes that speak to the scale of transformation that is possible if countries bring their INFFs to maturity.

This report takes stock of the progress that we see with country-led financing strategies as well as lessons learned. It sets out key recommendations about how they can be enhanced; how to fulfil their potential in realizing change in the national financial ecosystem; and how the international community can support these country-led efforts to make finance work for people and planet. It also spotlights the innovations and transformations being driven in case studies of 20 countries, across all development settings. In this respect, the United Nations Development Programme (UNDP), United Nations Department of Economic and Social Affairs (DESA), United Nations Children's Fund (UNICEF) and the Organisation for Economic Co-operation and Development (OECD) have come together with the European Union and the Governments of Sweden, Italy, and Spain to offer the INFF Facility, which provides technical support to countries to implement these ever-more vital frameworks. The INFF Facility brokers technical assistance, facilitates knowledge exchange, and provides access to technical guidance on INFFs. We invite new partners to explore the unique range of support that the INFF Facility can provide.

There are now crucial opportunities to drive new momentum on reform of the international financial architecture, including the Summit of the Future, discussions on the New Collective Quantified Goal on climate finance in the run-up to COP29 in 2024, and the Fourth International Conference on Financing for Development in 2025. In this respect, this analysis of country-led progress through INFFs—and financing strategies therein—is helping to highlight countries' ambition and innovation in terms of financing the future they want. It also aims to help inform the shaping of a new international financial architecture that systemically aligns capital with sustainable development. In short, INFFs represent a profound shift in thinking, whereby confronting shared existential threats like climate change and moral imperatives like poverty reduction can only succeed through unified efforts at the global and country levels—and a recognition that finance can indeed be crafted to truly work in service of people and planet.

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Acronyms

AAAA	Addis Ababa Action Agenda
BIOFIN	Biodiversity Finance Initiative
CERF	Carbon Emission Reduction Facility
COP	Conference of the Parties
CSO FfD	Civil Society Financing for Development Mechanism
CSO	Civil society organization
DESA	United Nations Department of Economic and Social Affairs
DFA	Development finance assessment
Djibouti ICI	Djibouti Institutions-Connectivity-Inclusion
EMFS	Sustainable Financing Mobilization Strategy
ESG	Environmental, social and governance
FfD	Financing for development
FfD4	Fourth International Conference on Financing for Development
FTSE	Financial Times Stock Exchange
FYDP III	Third Five-Year Development Plan
GDP	Gross domestic product
GPFP	Global Public Finance Partnership
IFC	International Finance Corporation
IFI	International financial institution
ILFF	Integrated local financing framework
ILO	International Labour Organization
IMF	International Monetary Fund
INFF	Integrated national financing framework
ISSB	International Sustainability Standards Board
KPI	Key performance indicator
LDC	Least developed country

LIC	Low-income country
MDB	Multilateral development bank
MICs	Middle-income countries
MSMEs	Micro-, small- and medium-sized enterprises
MTRS	Medium-Term Revenue Strategy
NDC	Nationally determined contribution
NDP	National development plan
NSEDP	National Socio-Economic Development Plan
ODA	Official development assistance
OECD	Organisation for Economic Co-operation and Development
PFM	Public financial management
PPP	Public-private partnership
SDG	Sustainable Development Goals
SFAH	Sustainable Finance Advisory Hub
SIDS	Small island developing State
TADB	Tanzania Agricultural Development Bank
UNDP	United Nations Development Programme
UNFCCC	United Nations Framework Convention on Climate Change
UNICEF	United Nations Children's Fund
UN Women	United Nations Entity for Gender Equality and the Empowerment of Women
WHO	World Health Organization

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Executive summary

The global financial system is deeply misaligned with the Sustainable Development Goals (SDGs) to which countries and the global community have committed.

The 2030 Agenda, Paris Agreement and Kunming-Montreal Global Biodiversity Framework set ambitions for sustainable development for people, planet and prosperity. An annual allocation of just 1 percent of the US$430 trillion in total global capital would close the SDG financing gap. Yet within the current international financial architecture, this capital is not allocated to the contexts and investments in which it is needed. At the national level, investments and subsidization of fossil fuels and other harmful activities continue to rise.

The United Nations Secretary-General has highlighted reform of the financial architecture as a "game-changer in accelerating SDG progress." The Sharm El-Sheikh implementation plan agreed at the twenty-seventh Conference of the Parties (COP27) recognized the need for "transformation of the financial system and its structures and processes."[1] And the Kunming-Montreal Global Biodiversity Framework articulates the need to "substantially and progressively increase the level of financial resources from all sources."[2]

Decisions to be taken over 2024 and 2025 offer crucial opportunities to reconfigure the financial system to better align to these needs. The Summit of the Future in September 2024 will focus on the transformations required to achieve the SDGs, with a central focus on reforming the international financial architecture. In June 2025, the Fourth International Conference on Financing for Development (FfD4) in Spain will also focus on financial architecture reform, and provide an opportunity to update financing commitments at national and international levels. COP29 under the United Nations Framework Convention on Climate Change this year will focus on finance, including the agreement of a new collective quantified goal on climate finance, before countries submit their revised, more ambitious nationally determined contributions (NDCs) at COP30 next year.

At the international level, these policy processes and decision points offer important moments to progress on addressing the debt crisis, multilateral development bank reform and liquidity injections, the just green transition, and scaling up of sustainable development finance, including the United Nations Secretary-General's call for an SDG Stimulus to increase long-term affordable financing by $500 billion a year.[3]

At the country and subnational levels, reform to the financial ecosystem is also moving ahead. It is at these levels that scaled-up development finance must translate into investments and spending that advance sustainable development progress. Actions may be enabled or constrained by the international system, but Governments are not waiting for international reform to be complete before instigating change themselves—and this ambition and progress should inspire accelerated reform internationally too.

In 2015, United Nations Member States introduced the concept of integrated national financing frameworks (INFFs) to support national sustainable development plans in the Addis Ababa Action Agenda (AAAA).[4] These INFFs were conceived to bring together policies and institutions across the seven action areas of the AAAA at the country level.[5]

"The reforms that we are seeking in the global architecture will have the greatest impact when accompanied by strengthened national financing policies through the INFF"

Wale Edun, Honourable Minister of Finance and Co-ordinating Minister of the Economy, Nigeria

To date more than 85 countries are using the INFF approach to strengthen financing for sustainable development at the country level. These country-led processes are advancing reforms designed to reconfigure crucial parts of the financial system, to leverage and align both public and private capital for sustainable development within the country context.

The shift in approach at the national level is in stark contrast to just five years ago, when the majority of national development plans (NDPs) had no financing strategy nor clarity on the scale and types of investments that would be required to make them a reality.[6]

As we look ahead to the FfD agenda for 2025 and beyond, alongside the upcoming round of NDC and National Biodiversity Strategies and Action Plans revisions and ongoing implementation of the Kunming-Montreal Global Biodiversity Framework, INFFs have become a platform to catalyse transformation in the financial ecosystem at the national level.

Countries able to bring these INFFs to full maturity have the potential to drive transformation in national financial systems, making public and private investment more sustainable, inclusive and impactful. INFFs can provide clear country-led strategies behind which global and regional efforts like the European Union's Global Gateway, China's Belt and Road Initiative and the G7's Partnership for Global Infrastructure and Investment can align their investments at the country level. And they can contribute to acceleration of reform in the international financial architecture.

This report takes stock of the progress with INFFs to date and the outlook and priorities for the future. A total of 13 Governments at the national and subnational levels have operationalized financing strategies for their development plans using the INFF approach to date. These financing strategies aim to, for example, "put finance at the service of development" (Lao People's Democratic Republic), "close the SDG financing gap" (Pakistan's Punjab Province), "increase the sustainable development impact of financing" (Mongolia), and related objectives.

Each financing strategy is country-led, tailored to the local context, priorities and challenges, and embedded within national and subnational institutions.

As such, these financing strategies advance a variety of strategic approaches. Djibouti's financing strategy, for example, places a strong emphasis on leveraging new public finance. More than half the actions in Nigeria's financing strategy focus on private finance. In the Maldives, more than 70 percent are designed to align finance with sustainable development for greater impact. Ethiopia's crisis-sensitive financing strategy highlights how to align financing across humanitarian, development and peace priorities.[7] Yet all bring a more holistic approach, public and private, to financing national priorities, and all consider opportunities for both new investment and greater impact, and the capacities and institutional changes required to underpin them.

More than 50 countries are implementing reforms to their public and private financing policies shaped through their INFF, with implementation catalysed by the process of dialogue and assessment in many countries even while a financing strategy is still being developed.

Many of these reforms are laying the foundations for longer-term transformation in key financial systems—reconfiguring the budget process to align spending with the SDGs, embedding climate risk in the governance of financial markets or establishing capacity to deploy SDG-aligned financial instruments. While the full impacts of these changes will not be realized for some time, the intermediate financial outcomes emerging from some of the more advanced reforms highlight the scale of potential.

In public finance, 32 countries are advancing changes to embed sustainable development priorities in the formulation, management and monitoring of public expenditure. In Bangladesh, for example, climate change is now a core part of budget documentation, from the initial budget call circular to key performance indicators for budget programmes and expenditure reports to Parliament. The Government recently used this system to access a $1.4 billion loan from the International Monetary Fund's Resilience and Sustainability Facility. In Colombia, the Government established a tagging system that has seen SDG-aligned budget expenditure grow by 17 percent in four years—an increase of $10 billion.

On the tax front, countries are prioritizing changes to both increase revenue mobilization and align tax policy with sustainable development priorities. Kyrgyzstan, for example, has introduced a new tax code to strengthen the effectiveness and SDG-alignment of tax incentives, worth an estimated 5 percent of GDP.

Regarding sovereign debt, many countries are innovating to issue or refinance debt in ways that sustainably unlock capital for investment in sustainable development. Benin, for example, was the first least developed country and first African sovereign to issue an SDG bond, unlocking €500 million for investment in social sectors, environment projects and other areas. Indonesia has mobilized more than $10 billion through a range of diversified issuances, most recently including an inaugural sovereign blue bond.

Building on these changes, INFFs can become a platform for an integrated approach to public finance. Many Governments are already using the approach to look at climate change and social issues within their tax policy, debt systems and expenditure structures at the same time. Extending this to consider the integrations, synergies and trade-offs among them, and applying a similar approach through the lens of gender equality, nature and other cross-cutting priorities, will be an important next step.

In private finance, countries are placing a strong emphasis on hardwiring sustainability into the foundations of financial markets. Taxonomies are being established in many contexts to provide a common framework for classifying sustainable finance and facilitating cross-border private capital flow to finance climate, green and social development priorities. Sustainable investing standards and disclosure and reporting frameworks are enhancing transparency and accountability for the impacts firms have on sustainability. In Thailand, for example, the green taxonomy development was led by the country's Working Group on Sustainable Finance to help mobilize additional funding for development, especially from the private sector. In addition, Thailand's Securities and Exchange Commission recently introduced guidance for SDG impact-based reporting within the sustainability reporting requirements for listed firms with a combined market capitalization of over $480 billion. Over time, and as capacity is built, the intention is for this to evolve from a voluntary to mandatory reporting requirement. Countries such as Cabo Verde are also innovating in the deployment of new financial instruments. The Stock Exchange of Cabo Verde launched Blu-X, the world's first blue economy sustainable finance platform, which has mobilized more than €35 million through various issuances to date.

At the same time, countries are promoting investment in specific areas that are catalytic for SDG progress. Many countries have been developing market intelligence on investment opportunity areas with high SDG impact potential, and promoting investment in this regard—in Nigeria, for example, firms in a $175 million pipeline of projects are being equipped to mobilize investment.

Blended finance and public-private partnerships are being used to scale up investment in key areas, and expand the impact of private capital by ensuring enhanced access for 'last mile' populations. In Senegal, for example, credit guarantees from the African Development Bank are facilitating €400 million for green and social investment, while the Uganda Development Bank has established a Climate Financing Facility providing affordable finance for climate-smart agriculture, infrastructure and low-carbon industry.

Overall, analysis of a selection of reforms from 17 countries highlights approximately $16 billion in new finance leveraged and the enhanced SDG-alignment, and scope for SDG-alignment of more than $32 billion of financing.

These are just the first among many policy reforms being shaped at the country level to further align the financial system for sustainable development.

The experience with INFFs highlights the drive, across many countries, to consider finance as an enabler for multiple development agendas in an integrated manner. The Maldives' gender-responsive climate finance strategy is designed to drive the transformation from a fossil fuel-based economy to one where finance is aligned with the sustainable agenda and incorporates consideration of sustainability risk. The Maldives is one among more than 10 countries that are already linking their INFF to both their NDP and their NDC.

> "The Maldives considers all forms of development financing as essentially climate finance given its fragile ecosystems"
>
> Maldives Gender-responsive Climate Financing Strategy

While most INFFs to date are at the national level, a growing number of subnational administrations are demonstrating the value of the approach at the provincial and local levels. Pakistan's Punjab Province, for example, recently launched its financing strategy, while Gombe State in Nigeria and the Water Authority of Tanga in Tanzania both recently issued their countries' first subnational green bonds.

Underpinning these transformations is the development of new and strengthened institutional functions that can sustain progress into the future. Countries are strengthening capacities to manage financing for sustainable development outcomes across both the public and private sectors, that will enable continued leverage and alignment. Ongoing financing dialogues between policymakers, the private sector and, crucially, representatives and advocates for the most vulnerable, are a critical foundation for innovation and accountability, ensuring that changes to the financial system enhance sustainability and inclusivity.

Building a more sustainable financing ecosystem is a medium- to long-term endeavour, and fulfilling the potential of this agenda will be complex. The process moves at different speeds in each context depending on the political cycle and timing of the national planning system. The opportunities, challenges and requirements vary according to both national and international factors. Realizing the potential of INFFs will also require support from the international community. The Joint SDG Fund has played an important role helping many countries lay the foundations for their INFFs.[8] Scaled-up technical assistance and capacity development for INFFs in line with the G20's SDG action plan,[9] continued implementation of the G20 Framework of voluntary support to INFFs,[10] and alignment of support from international financial institutions (IFIs) and development partners with national financing strategies, will be crucial. IFI and MDB efforts to scale up private investment mobilization can play an important role advancing key priorities in national financing strategies, and these efforts, and MDB country platforms, must be rooted in country-led INFF processes.

The INFF Facility can play an important role brokering technical assistance from diverse stakeholders (such as multilateral organizations, bilateral development partners, independent experts, South-South providers and the private sector), facilitating knowledge exchange between countries and providing access to technical guidance.

Despite the complexity, the experience and outcomes emerging to date show the kinds of transformations that can be driven by country-led, impact-oriented financing strategies through the INFF approach and beyond. The report has highlighted the growing chorus of actors—academics, private sector, civil society, IFIs and international partners—calling for impact-oriented, country-led approaches to financing and engagement with INFFs directly.

The experience underscores the value of country-led, impact-oriented, holistic financing strategies. As momentum builds and outcomes emerge, INFFs can be seen as one of the clear successes of the AAAA. Progress to date highlights the role that INFFs can play in systematically advancing change in the financial ecosystem at the national and subnational levels, to unlock and align financing for sustainable development. Progress at the country level can also inspire and catalyse reform in the international financial architecture.

Looking ahead to FfD4, well as efforts to strengthen financing for the Paris Agreement and Kunming-Montreal Global Biodiversity Framework, and in the context of a world increasingly facing multiple, concurrent crises, INFFs and country-led financing strategies must be an integral part of our efforts for reform, so that we have a financial system at the global and country levels that works for people and planet.

Recommendations for FfD4

The experience with country-led INFFs points to several important recommendations for FfD4:

1. *Work towards an outcome encompassing interconnected reform of the international financial architecture and commitments to advance INFFs and integrated local financing frameworks.*

2. *Promote stronger public and private institutions at the country level, equipped to mobilize and align financing for the future.*

3. *Building on the AAAA, recognize INFFs and financing strategies as the primary financial planning tool at the centre of country-level efforts on FfD, guiding public, private, domestic and international financing policy for sustainable development.*

4. *Prioritize development-oriented public finance systems that embed the SDGs and social, climate and nature priorities within the systems and policies for revenue mobilization and expenditure.*

5. *Promote a coherent approach to sustainable development outcomes, including climate change and gender equality, across spending, tax and debt policies, using INFFs as a platform for an integrated approach to public finance.*

6. *Emphasize the foundational role of SDG-aligned financial regulations to mobilize and align financing for sustainable development.*

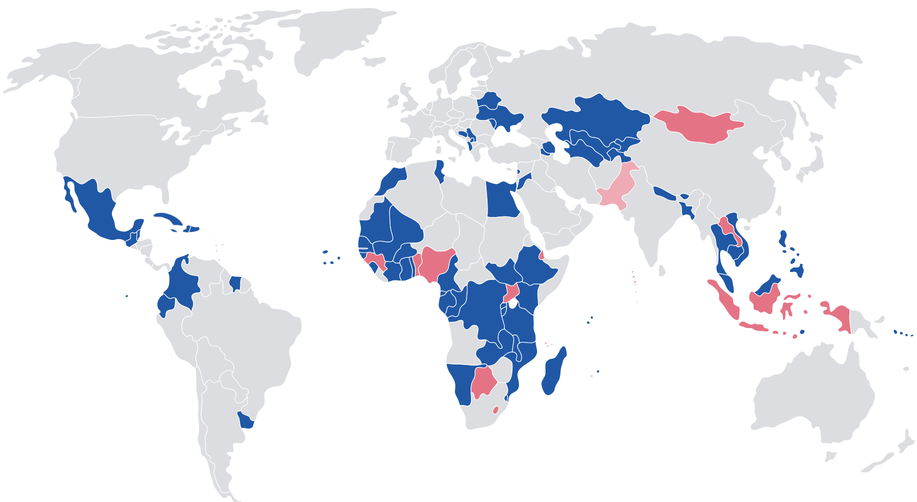
7. *Incorporate SDG-alignment into the design of investment opportunities, pipelines, promotion and facilitation.*

8. *Strengthen advocacy and collaboration with global investors and business community to embed SDG impact in their operations and prioritize investment into the sustainable development priorities at the country level.*

9. *Promote INFFs as a platform to engage a broader constituency of actors in policy decisions for more sustainable, inclusive finance at the country level, and to enhance transparency and accountability.*

10. *Solicit commitment by the international community—IFIs, bilaterals and international organizations—to align programming, technical assistance and use of instruments on financing with the priorities articulated through country-led INFFs, and to connect coordination mechanisms and country platforms with the national institutions leading INFF implementation.*

Countries able to bring these INFFs to maturity have potential to drive transformation in the financing ecosystem, making finance work for people and planet.



86 countries using the INFF approach to build a sustainable finance ecosystem at the country level

13 national and subnational governments have an operational financing strategy

More than **50 countries** are implementing reforms to public and private financing policy shaped through their INFFs

These reforms are:

- embedding sustainable development into government budgets, financial markets and private sector operations
- catalysing SDG-aligned investment and deploying new and innovative SDG-aligned financial instruments
- enhancing governance/institutions, and deepening transparency, accountability and collaboration for a more inclusive and sustainable financing ecosystem

Initial emerging impacts across 17 countries include:

$16 billion in new finance leveraged for investment in sustainable development

alignment and scope for alignment of more than **$32 billion**

Introduction

In 2015, world leaders adopted the Addis Ababa Action Agenda (AAAA) at the Third International Conference on Financing for Development. The AAAA established the framework for financing the Sustainable Development Goals (SDGs) through seven action areas that cover all aspects of public and private finance. At the country level, United Nations Member States envisaged implementing the SDGs through cohesive national sustainable development strategies supported by integrated national financing frameworks (INFFs).

Ahead of the Fourth International Conference on Financing for Development (FfD4) in Spain, alongside crucial decisions on financing in other international policy processes, this report takes stock of progress with the INFFs that United Nations Member States introduced in 2015.

The report distils the progress, achievements and lessons learned as Governments and their partners have used the INFF approach at the country level. It draws on data gathered through the INFF survey conducted over the end of 2023 and in early 2024. And it builds on the support provided to these Governments by the partners to the INFF Facility—the role of the United Nations Development Programme (UNDP) leading technical support at the country level; the leadership of the United Nations Department of Economic and Social Affairs' (DESA) of the INFF methodology and as secretariat to the Interagency Taskforce on Financing for Development on FfD; the support of the United Nations Children's Fund (UNICEF) to social sectors and key aspects of public financial management (PFM); and the experience of the Organisation for Economic Co-operation and Development (OECD) with transition finance and engagement of development partners through the Development Assistance Committee.

The report draws on this extensive experience at the country level to present key findings and recommendations for the revised Financing for Development (FfD) Agenda.

The report is structured around four chapters. Chapter 1 looks at country-led financing strategies and how they are embedding sustainability into the national financial architecture, unlocking investment, and providing a platform for integrated finance policymaking for sustainable development, climate, nature and social priorities. Chapter 2 considers public finance and the role of INFFs in shaping SDG-aligned budgets, taxation and debt, and the opportunities for an integrated approach to cross-cutting issues across public finance as a whole. Chapter 3 looks at private finance and how countries are taking steps to hardwire the SDGs into financial markets and promote investment in SDG-aligned pipelines, and the role of public-private and blended modalities. Finally, chapter 4 considers how countries are strengthening institutional functions for an impact-oriented, holistic approach to financing, considering the governance and coordination mechanisms and participation, transparency and accountability. Each chapter ends with a number of short recommendations for different actors, moving forward as discussions on the new FfD agenda begin.

The report is about country-led financing frameworks, and as such, the narrative of the report is itself country-led. A total of 20 detailed country case studies are presented across the following chapters, alongside other country examples, to illustrate and examine the trends and insights observed at the country level.

Chapter 1

Country-led financing strategies

Headline messages

- A growing number of countries have established and are implementing country-led, impact-oriented financing strategies encompassing public and private finance—a transformation from just five years ago, when most national sustainable development plans had no financing strategy.

- Governments are using these financing strategies to embed the SDGs into the national financial architecture, charting a course to unlock investment for a new, more sustainable and inclusive growth path. Initial data based on a selection of emerging reforms in 17 countries show approximately US$16 billion in resources leveraged for SDG investment and enhanced SDG alignment and scope for alignment of more than $32 billion in existing resources.

- A growing number of countries are using their financing strategies as a platform for integrated policymaking on FfD, climate and nature outcomes. Other countries can learn from this approach to leverage synergies and efficiencies in financing across climate, nature, gender equality, peace, resilience and many other priorities.

- There are signs of increasing alignment among international partners behind country-led financing strategies. This should be accelerated, with further commitment to do so set out in the revised FfD agenda.

The architecture of the financial system shapes the channels through which capital flows and creates powerful incentives and disincentives for investment in different geographies, sectors and business models. This is true at the international level, where just a 1 percent flow from the more than $430 trillion in global capital could be sufficient to meet the funding gap of the SDGs. And it is true at the national level, where for example fossil fuel subsidies grew to $7 trillion globally in 2022.[11] These startling facts show both that eliminating fossil fuel subsidies could close the funding gap, but also the underlying incentives and structure of the financial system do not naturally lead to this result.

Misalignment between the financial ecosystem and sustainable development priorities is a key cause of underinvestment in and slow progress towards the 2030 Agenda, Paris Agreement and Kunming-Montreal Global Biodiversity Framework (see box 10 below). At the global and country levels, the financial architecture is often geared towards short-term investments, rather than longer-term, transformational investments, with powerful incentives to consider only economic and financial objectives at the exclusion of social and sustainable considerations.

Reform of the international financial architecture is ongoing, with a focus on issues including the debt crisis and debt restructuring, multilateral development bank (MDB) reform, the financial safety net and liquidity injections, governance reforms and the just green transition. The SDG Stimulus called for an increase in affordable long-term financing for sustainable development by at least $500 billion a year.

At the country level, Governments and other national stakeholders are moving forward with reforms to reshape the national financing ecosystem.

For many years, Governments have worked to enhance systems and governance in key areas of finance. These efforts have typically focused on individual policy areas—strengthening budget processes through medium-term expenditure frameworks or enhancing policy frameworks for private and financial sector development, for example. The connection between the improved architecture and sustainable development priorities has often been partial. Tax policy is often concerned primarily with maximizing revenue, with limited consideration of the impact on social or inequality outcomes. Public policy tools that promote private sector development are often configured for economic objectives, without embedding consideration of sustainable or inclusive outcomes.

Few countries have historically looked at the national financing ecosystem holistically and considered the configuration of systems and policies across the landscape as a whole in relation to national sustainable development priorities—economic, social and sustainable objectives.

A 2019 study of more than 100 national development plans (NDPs) found that less than 30 percent were costed, or had any kind of strategy for how they would be financed.[12] Where financing strategies were set out, they were primarily concerned with public finance.

However, over the last five years, a growing number of countries have put in place holistic financing for sustainable development strategies, concerned with systematic reform the national financial architecture. For many, this has drawn from the INFF approached introduced by United Nations Member States in the 2015 AAAA (box 1). Others have adopted similar approaches, or put in place financing strategies with a focus specifically on sustainable, green or social finance (see for example, the experiences of Mexico and China later in the report).

Box 1. The Addis Ababa Action Agenda and integrated national financing frameworks

In 2015, world leaders adopted the AAAA at the Third International Conference on Financing for Development. The AAAA established the framework for financing the SDGs through seven action areas: domestic public resources; domestic and international private business and finance; international development cooperation; international trade as an engine for development; debt and debt sustainability; addressing systemic issues; and science, technology, innovation and capacity-building.

The concept of an INFF was first introduced by United Nations Member States in the AAAA as a way of bringing together the seven actions areas at the country level in support of national sustainable development plans. INFFs help countries finance their national sustainable development objectives and the SDGs.

INFFs are voluntary and country-led. Through INFFs, countries develop a strategy to mobilize and align financing with all dimensions of sustainability, broaden participation in the design, delivery and monitoring of financing policies, and manage risk. INFFs are embedded within national plans and financing structures, enabling gradual improvements and driving innovation in policies, tools and instruments across domestic and international sources of public and private finance.

Following the agreement of the AAAA, the Inter-Agency Task Force on Financing for Development, with a secretariat housed in DESA, was mandated to develop a methodological approach and guidance on INFFs, building on country experiences and lessons.

Methodological guidance on INFFs can be found on the INFF knowledge platform, inff.org. The guidance covers each of the building blocks of the INFF: the inception phase, assessments and diagnostics, financing strategy, monitoring and review, and governance and coordination. E-learning courses are also available for beginners and in-depth users, as well as an e-learning course focused on INFFs and climate change.

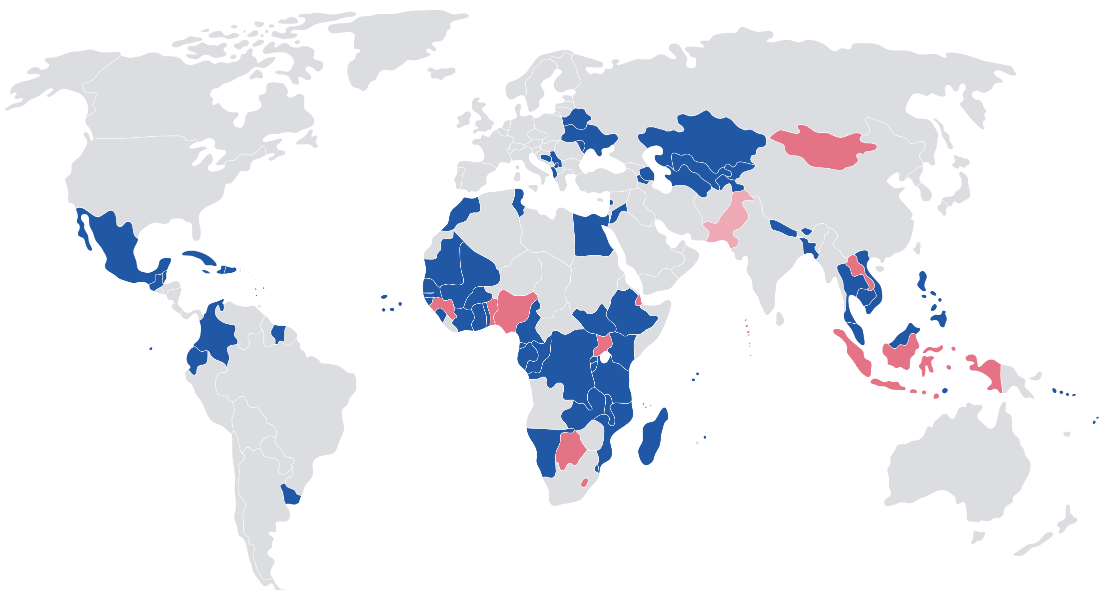
Technical guidance documents have been developed on INFFs in relation to a growing range of thematic priorities, finance policy areas and contexts, covering budget credibility, agriculture, climate, development cooperation, disaster risk reduction, education, health, least developed countries (LDCs), leaving no one behind and small island developing States (SIDS). Guidance has also been developed by the United Nations Entity for Gender Equality and the Empowerment of Women (UN Women) on mainstreaming gender equality and INFFs,[13] and the International Labour Organization (ILO) on decent work and INFFs.[14]

> "Cohesive nationally owned sustainable development strategies, supported by integrated national financing frameworks, will be at the heart of our efforts."
>
> Addis Ababa Action Agenda

More than 85 countries are currently using the INFF approach (Figure 1). Building a more sustainable financing ecosystem is a medium- to long-term endeavour, and the INFF process moves at different speeds in different contexts, depending on factors including the political cycle and timing of the national planning cycle which is often a five-year process. Countries are advancing through the process and momentum is gathering in gathering in many, with others newly starting the process or determining how to adopt the approach within their context and institutions.

To date, 13 national and subnational governments have an operational financing strategy that sets priorities for public and private financing at the country level, with specific actions to reform financing policies, instruments and institutions. Many of these are refining institutional structures to deliver the approach set out in the financing strategy, and the first are expected to publish their inaugural monitoring reports in the coming year. Another 26 countries are in the process of drafting and negotiating their financing strategy at the time of writing, and are expected to finalize and operationalize it soon. In total, 53 countries are implementing reforms that have been shaped through their INFF, even while the process of designing a financing strategy is still ongoing or planned for the future.

Figure 1. Country-led financing strategies



Countries coloured red have an operational financing strategy (N.B. in Pakistan, Punjab Province has launched its financing strategy); other countries using the INFF approach are coloured blue.

Box 2. The INFF Facility

The INFF Facility was launched in April 2022 at the FfD Forum to support countries developing and delivering INFFs. The Facility is a joint flagship initiative of the UNDP, DESA, UNICEF, OECD, the European Union, and the Governments of Italy, Spain and Sweden. It helps Governments and their partners realize the potential of the INFF approach to accelerate progress towards national sustainable development objectives and the SDGs.

The INFF Facility brokers technical assistance, facilitates knowledge exchange and provides access to technical guidance. It leverages UNDP's role leading technical support at the country level, DESA's leadership of the INFF methodology, UNICEF's support to social sectors, and key aspects of PFM and the OECD's experience with transition finance and engagement of development partners through the Development Assistance Committee.

Box 3. Definitions and methodology

Definitions

Many sustainable finance terms have been defined and understood in different ways by different actors. The following definitions are used for key terms presented throughout the report.

Alignment: Generating enhanced SDG impacts from existing finance (public or private).

Financial ecosystem: The environment (legislation, regulations, policies), institutions and actors, and standards and norms within which financial decisions are taken, and spending and investment happens.

Leverage: Generating or unlocking new finance (public or private) for investment in the SDGs. This can include attracting private sector investments, increasing public revenues or accessing international finance, for example.

Reforms: Changes, reconfiguration or introduction of policies, instruments, institutional arrangements or other elements of the financial architecture designed for a specific purpose.

Scope for alignment/leverage: Used when reforms have been made for the purpose of aligning existing financial resources with SDGs or leveraging new resources for the SDGs, but the actual change in outcomes is not measurable. This can either be due to the nature of the change being difficult to track, or because of the gap in time between a reform being delivered and the change in outcome occurring.

Data

UNDP conducts an annual INFF survey on behalf of the INFF Facility to gather information on the status, ongoing work and outlook with INFFs at the country level. This is a key source of data and information for the analysis presented in this report. Information was gathered from 76 countries between October 2023 and February 2024 covering the INFF building blocks, financing reforms, partnerships and future priorities. Data on the initial outcomes emerging from INFFs (see section 'Unlocking investment and setting the foundations for a new growth path') was collected from documentation available for each of 143 reforms identified through the survey, using the definitions above as a guide. In addition, the report draws from numerous other sources including UNDP country offices, United Nations Joint SDG Fund, media press releases, and various other country and global level sources.

See further methodological notes in the annex.

Embedding sustainable development in the national financial ecosystem

National financing strategies represent an ambitious attempt to reconfigure the financial ecosystem within which public and private finance is invested at the country level, unlocking and aligning investments that respond to financing needs (see box 4) and can accelerate SDG progress.

Nigeria, for example, faces an estimated $10 billion annual financing gap for its sustainable development priorities,[15] while heavy reliance on oil has hindered diversification, and vulnerability to external shocks remains high.

In response to these challenges, the President of Nigeria launched the country's integrated national financing strategy in 2022[16] as part of the implementation of the medium-term NDP (2021–2025). The financing strategy is being used to expand the envelope for SDG financing and enhance the sustainable development impact of public and private financing, at both the national and subnational levels.[17]

In terms of public finance actions, in 2023 the Government removed fossil fuel subsidies from the national budget, which accounted for $9.3 billion[18] of spending, equivalent to over 15 percent of the budget. This is a key component of the Government's strategy for realigning public expenditure with sustainable development priorities—more was spent on the subsidy in 2022 than on education, health and infrastructure combined.[19] The financing strategy, which brings together the country's Medium-Term Expenditure Framework with its Medium-Term Revenue Strategy (MTRS) and fiscal federalism framework, is catalysing changes to strengthen tax administration and policy. The Government is targeting an increase in revenue to reach 15 percent of gross domestic product (GDP) by 2030.[20] Improvements in tax auditing capacity, for example, have enabled more than $30 million in increased revenue collection,[21] alongside ongoing efforts to digitize tax administration systems, reform policy in sectors such as artisanal and small-scale mining, and advance potential future green bond issuances at subnational levels.

As concerns private finance, Nigeria's financing strategy focuses on improving the enabling environment and stimulating SDG-aligned investment projects. Efforts to unlock capital include, for example, the development of a $175 million pipeline of investments in SDG investment brokering across sectors including health care, agriculture and finance which have to date already raised $5.7 million in new investment.[22] Enhanced transaction advisory support to women- and youth-led micro-, small- and medium-sized enterprises (MSMEs) and green businesses unlocked approximately $5.3 million in assets for MSMEs in 2023.

The national financing strategy represents a starting point for locally driven reform efforts in Nigeria. Notably in Gombe State, a recent investor round table and the establishment of an investment facility resulted in two companies signing an MoU for an investment valued at approximately 14 billion naira ($9 million), with the potential to create over 2000 jobs.[23] The Gombe State Investment Promotion Agency is being established and the state government issued a 30 billion naira green bond ($19 million) on the Nigerian Exchange in February 2024.[24] Governor Muhammad Inuwa Yahaya has outlined plans to raise an initial 15 billion naira to bolster vital infrastructure projects in the state. Gombe is one of six states in which subnational development finance assessments (DFAs) and the INFF action plans geared towards investment promotion are ongoing, underscoring the increasing momentum towards impactful development initiatives at local level.

Taken together, these reforms add up to an ambitious attempt to reconfigure the financial ecosystem in Nigeria, to unlock and align public and private investment that advances the objectives of the country's medium-term NDP.

To accelerate the implementation of Nigeria's ambitious financing strategy, the Minister of Finance and members of the Nigeria INFF Steering Committee proposed an INFF fund to leverage Government and partners' contributions for implementing the financing strategy action plan.

"The reforms that we are seeking in the global architecture will have the greatest impact when accompanied by strengthened national financing policies through the INFF."

Wale Edun, Honourable Minister of Finance and Co-ordinating Minister of the Economy, Nigeria[25]

The way Nigeria is using its financing strategy is indicative of a wider trend.

Countries are using their financing strategies to detail the priorities for public and private financing for sustainable development within their national contexts. These financing strategies set out how much might be needed to achieve these development priorities, how the diverse mix of investments required to achieve national and subnational sustainable development priorities will be unlocked, and the changes to policies, instruments, regulations and the enabling environment that will be implemented in order to realize these investments.

An analysis of the financing strategies in operation[26] in 12 countries and 1 province[27] reveals how countries aim to alter the financing landscape. The financing strategy developed in Lao People's

Democratic Republic, for example, aims to "put finance at the service of development … [with] policies that can increase the volume and/or alignment of all financial flows to the national plan."[28] In Botswana, the goal is to "narrow the SDG financing gap … providing a gender-responsive, green and climate-smart SDG financing strategy."[29] The financing strategy in Pakistan's Punjab Province aims to close the SDG financing gap, estimated at over $500 million a year,[30] with innovative financing strategies and a collaborative approach across stakeholders.[31]

The packages of reforms and actions set out in these financing strategies cut across a diverse mix of policy areas within each country context, touching on all aspects of the financing landscape (Figure 2). A quarter of the reforms are focused on public spending and investment, with 13 percent focused on domestic revenue mobilization. A total of 18 percent focus on the financial sector and 17 percent on private sector investment, with the remainder cutting across debt management (7 percent), development cooperation (9 percent), remittances (4 percent) and other areas including philanthropic finance, NGOs and faith-based finance. Meanwhile, 6 percent of reforms focus on national audits, monitoring and reporting.

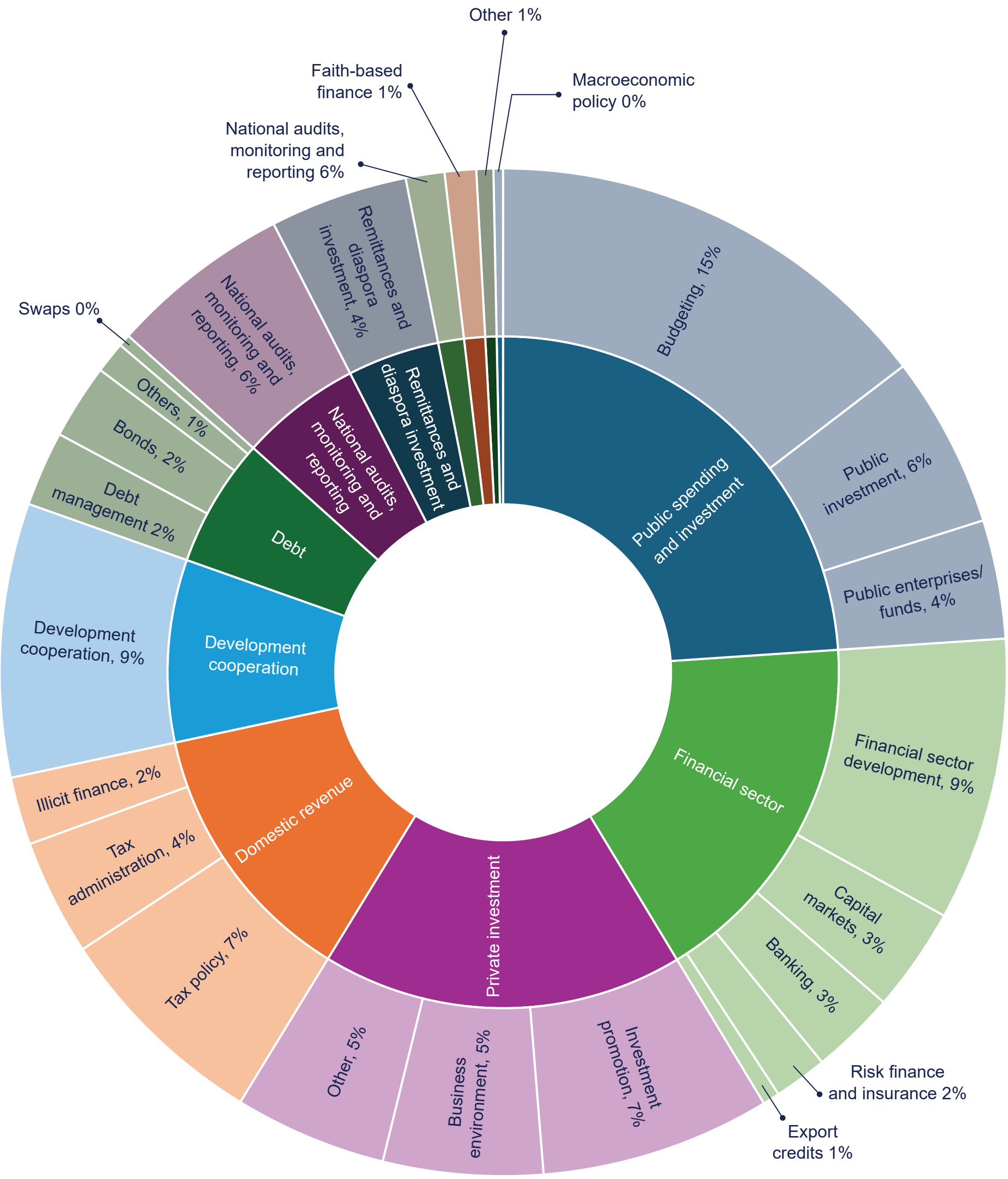


Figure 2. Reforms prioritized across 13 operational financing strategies

The financing strategies speak to diverse purposes, reflecting the need to unlock new investment where possible, while also enhancing the sustainable development impact of existing financing (Figure 3). A total of 45 percent of reforms are focused on leveraging new investment and 36 percent on aligning finance with sustainable development priorities, while 19 percent have dual purposes.

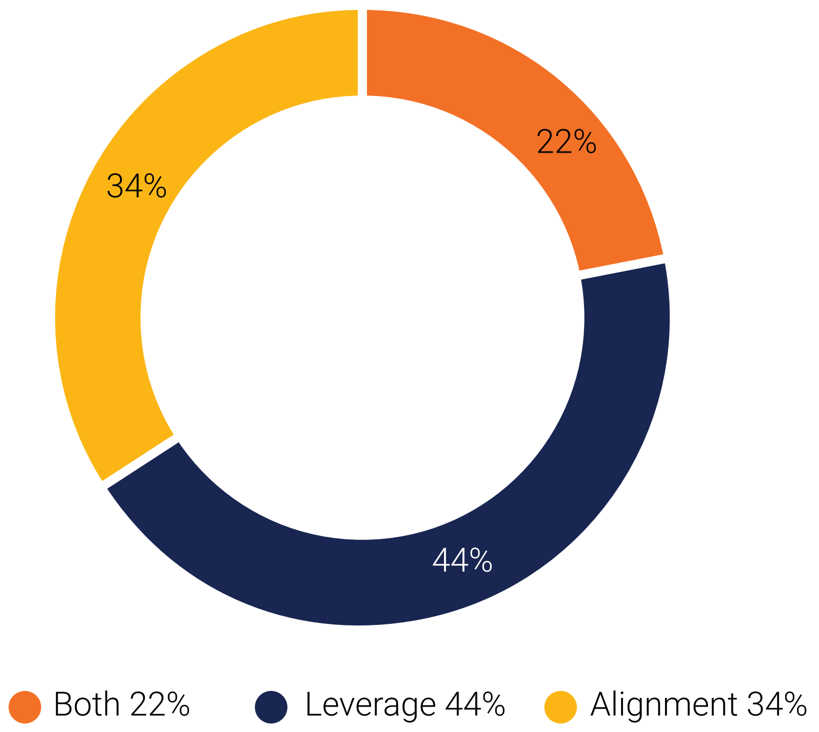


Figure 3. Actions to mobilize and align financing for sustainable development

Each financing strategy is unique to the local context (see infographic between chapters 1 and 2), embedded within national institutions. In Uganda, 80 percent of the reforms are primarily concerned with leveraging new resources, while in Maldives 70 percent are primarily concerned with enhancing the alignment of investment with sustainable development priorities. In Lao People's Democratic Republic, more than 60 percent of reforms are focused on public finance, while in Nigeria 51 percent are focused on private finance.

Box 4. IMF SDG Financing tool (FiT)

The IMF SDG Financing Tool is an interactive scenario builder that can be used to assess the macroeconomic coherence of countries' SDG financing plans. It is designed to help stakeholders advance long-term comprehensive plans, evaluate the impact of policies, and compare financing options. Through the interactive builder, a country's progress towards the SDGs can be monitored, financing needs and policies to accelerate the SDGs can be explored, and custom financing scenarios can be developed to assess their impact on the path towards the SDGs.[32]

An example of the variety of ways in which countries are using the INFF approach is highlighted by Djibouti, where the financing strategy aims to "align and integrate national financing solutions for garnering sustainable resources to fund implementation of Djibouti ICI [Institutions-Connectivity-Inclusion] (the NDP) and the SDGs," with an emphasis on strengthening national frontline defences against socio-economic risks.[33]

Djibouti, positioned at a critical maritime geostrategic chokepoint- at the entrance of Bab El Mandeb strait on the shipping route between Europe and Asia, faces unique vulnerabilities. Despite significant progress, including a threefold increase in GDP over a decade, Djibouti's economy is highly dependent on its ports and import and export sectors, making it susceptible to external shocks. The country's journey towards graduating from the LDC category has been jeopardized by a convergence of crises: the COVID-19 pandemic, global and regional conflicts, a global economic downturn coupled with a debt crisis, and the climate emergency. These challenges underscore Djibouti's need for a resilient financing strategy to diversify its economy and mobilize all kinds of finance needed at speed.

Spearheaded by the Ministry of Economy and Finance in charge of Industry, with a wide range of stakeholders including line ministries, development partners and private sector represented by chambers of commerce and CEOs, the INFF, launched in April 2023 and currently under official indorsement by the Cabinet, is a pivotal move. It marked the first incorporation of financing for the SDGs into Djibouti's macroeconomic planning, aiming to finance the $14 billion cost of the last NDP, the Djibouti ICI (2020–2024).[34]

The Government has initiated several reforms to realize this more holistic strategy for financing sustainable development, to navigate through crises. This includes initiating tax reforms to bolster auditing capabilities and employ digitalization for administrative efficiency and revenue leakage mitigation. Green bond feasibility studies have been completed to explore the possibility of future issuances. The promotion of strategic investment opportunity areas to attract foreign direct investment is under way,[35] with investment roundtables held nationally and with foreign investors in Turkey.

These reforms are emblematic of Djibouti's strategic adaptation to its vulnerabilities, leveraging the INFF as a cornerstone for financing sustainable development and economic diversification amid uncertainty and risk. The INFF has prompted a shift in perception towards advancing reforms that leverage a wide range of financing, beyond traditional sources such as official development assistance (ODA) alone, to chart a course beyond crisis and to build resilience. This approach has also emphasized the importance of enhanced governance, coordination and transparency in maximizing the development effectiveness of resource allocation.

> "We now know exactly what type of financing we need and for which sectors, thanks to the INFF, we also know what capacities we need to mobilize from the private sector, especially in relation to the SDGs."
>
> H.E. Ilyas Moussa Dawaleh, Minister of Economy and Finance, Djibouti

Box 5. Joint SDG Fund support for INFFs

The United Nations Joint SDG Fund has supported many of the countries developing an INFF. Through its 'SDG Financing: Enabling environment' portfolio, the Joint SDG Fund ran 62 joint programmes in 69 countries from June 2020 to June 2023. Working through a total of 21 United Nations entities, these joint programmes were designed to support Governments in creating strategies, policies and capabilities for aligning public and private capital to the SDGs and NDPs.

In most countries, the joint programmes were used to support Governments to explore and lay the foundations for the INFF approach. Results across the portfolio as a whole show that the joint programmes offered timely assistance that was instrumental as Governments dealt with the effects of the pandemic, and many were beginning to use the INFF approach as a framework to consider financing.[36]

Across Nigeria, Djibouti and the other countries with an operational financing strategy, as well as many other countries that are in the process of developing their INFF at the time of writing, financing strategies are being used to enhance the impact orientation of the national financing architecture to enable greater investments in progress towards the SDGs, including climate, nature, social, social protection, job creation (see box 9 below) and decent work,[37] and other sustainable development priorities.

Box 6. INFFs as a response to fragility

A stable and prospering Government one day may face an earthquake, and a hurricane or sudden increase in conflict the next. In an uncertain world, the best financial investments a Government can make would generate positive social returns across a range of possible situations. Financial measures, sound policies and strong and resilient systems must be put into place to help reduce these risks, react to them if they occur, respond when they do and recover in the medium-term aftermath.

Three principles emerge to help guide thinking in this area from the growing body of state practice captured in the 2024 INFF survey and analytical work such as the 'Guidance Note: INFFs for Disaster Risk Reduction (DRR)' complied by UNDRR and DESA.[38] First, there is value in an integrated financing framework that provides humanitarian and development sector policy and public finance teams with a shared approach to financing their objectives to increase value for money and permit responses to scale in times of crisis. Second, resilience is programmed and budgeted for fragile settings before crisis hits. Third, an effective financing approach would identify additional and contingent sources of funding in advance to prepare for and respond to adverse situations.

Countries are beginning to follow such principles through their INFFs—in fact, 13 of the 39 countries on the World Bank's 'Classification of Fragile and Conflict Afflicted Situations' are engaging in INFFs.[39] The nature of their efforts varies. Uganda, for example, is the only country to explicitly list humanitarian response as a priority to be supported by its INFF. Uganda, along with Cuba, Armenia and Togo, have used crisis- or disaster-related assessments to shape their INFFs. Cabo Verde, Benin and Burkina Faso indicate that they are using the Financing Strategy as a tool for transitioning out of crisis or polycrisis. Similarly, 14 countries are using the Financing Strategy to increase resilience;[40] 5 countries to focus on peace;[41] and 1 country to address internal displacement.[42]

The nature of the reforms adopted in financing strategies to address these sources of fragility vary. For example, in Nigeria, the Government intends to use ODA to build resilience by integrating climate action into multisector development strategies, support public goods like public health, and enhance crisis planning and coordination. In Rwanda, the Government intends to build on support from the IMF's Resilience and Sustainability Trust to establish overall funds absorption capacity through climate tagging and a steady flow of bankable projects. Another notable reform identified is to establish and operationalize a national disaster response fund empowered to mobilize resources for disaster recovery and adaptation.

Preparedness reduces the cost and impact of adverse outcomes in fragile situations. Using INFFs, countries may be able to finance their preparedness and response, as well as enhance alignment and effectiveness across their disaster risk reduction, national development and financing objectives.

Unlocking investment and setting the foundations for a new growth path

Among the countries utilizing the INFF approach, 50 are actively implementing financing reforms driven by their INFF process.

While the full impact of these reforms unfolds over a medium-to-long time-frame, many are already showing emerging intermediate outcomes. Financially, this includes leverage of new public and private resources for investment in sustainable development priorities, as well as the alignment of existing investments to enhance their sustainable development impacts. Institutionally, it includes enhanced governance structures and improved capacities of national actors to implement a holistic, integrated approach to financing for sustainable development.

Mongolia, for example, faces dual challenges in the implementation of the SDG-aligned 'Five-Year Development Guidelines for 2021–2025,' integral to Mongolia's Vision 2050: high budget deficits and debt pressures which have narrowed fiscal space for development, and limited private sector access to international markets and funding.[43]

In response, Mongolia's National Committee for Sustainable Development, chaired by the Prime Minister, endorsed the Integrated national financing strategy in 2022.[44] The strategy aims to improve the coherence of public finance, increase public, private and mixed financial resources and increase the sustainable development impact of financing through a supportive enabling environment.[45]

As implementation of the financing strategy has advanced, Mongolia is already realizing financial outcomes across the public and private landscape.

On the public finance side, the Government has embarked upon a programme budgeting system, piloted initially in two ministries,[46] to define budget programmes and performance criteria for expenditure, supported by the European Union. This led to the amount of $900 million in annual SDG-aligned expenditure, an increase of $200 million in 2023. One of these ministries, the Ministry of Labour and Social Protection, has used some of the public finance reforms to advance the quality as well as increase the quantity of spending on vulnerable groups, such as children in need of protection. The revision of budget laws to strengthen fiscal discipline and accountability, with the focus on Medium-Term Fiscal Framework, signifies a shift towards more strategic, long-term financial planning, aligning yearly budgets with broader development goals. Tax authorities in Mongolia have developed a Gender Equality Seal and Gender Action Plan to incorporate gender considerations in its tax administration (for more details, see chapter 2). Mongolia has introduced an SDG bond framework,[47] aiming to diversify finance sources and broaden fiscal space for development.

Mongolia's INFF has also emphasized the role of public financial institutions. Notably the Development Bank of Mongolia has developed a sustainability risk management framework, showcasing tools to redirect finance from business-as-usual to areas generating SDG impact and sustained returns. The country has also adopted a public-private partnership (PPP) law, facilitating stronger collaboration between the public and private sectors, unlocking new financing sources for development projects.

On the private finance side, the country has set a target to increase green lending from 2 percent to 10 percent of all banking sector lending by 2030.[48] For the capital market, the adoption of sustainability reporting guidance as part of the Disclosure and Transparency Regulation[49] requires listed companies to report on their sustainability contributions. This initiative aims to steer the capital market towards SDG alignment, applying to firms with a combined market capitalization of $3 billion. Currently 12 percent of the listed companies are preparing sustainability reports, with a target to reach 25 percent in 2025. The stock exchange also plans to develop environmental, social and governance (ESG) indices based on the companies that are reporting on their sustainability contributions. The launch of the SDG Finance Taxonomy in 2023, only the second in the world, for mandatory compliance from 2025 by 12 commercial banks and more than 400 non-bank financial institutions and credit cooperatives enhances tracking and will enable greater promotion of financing flows towards the SDGs. By incorporating the taxonomy into its monetary policies, the central bank has already incentivized $90 million in Government funding and $30 million commercial bond issuance for green projects (for more details, see chapter 3). At the same time, the objective in the financing strategy for Mongolia to be included in the Financial Times Stock Exchange (FTSE) Russell Frontier markets was achieved in September 2023, and will enable the investments to flow to Mongolia from the global institutional investors that track the FTSE Russell Frontier Markets Indices.[50]

Implementation of these reforms through Mongolia's financing strategy shows how investments are being unlocked and aligned with national sustainable development priorities. Taken together, and as implementation of the financing strategy continues, they are charting the course for a more sustainable, inclusive growth path towards Mongolia's Vision 2050.

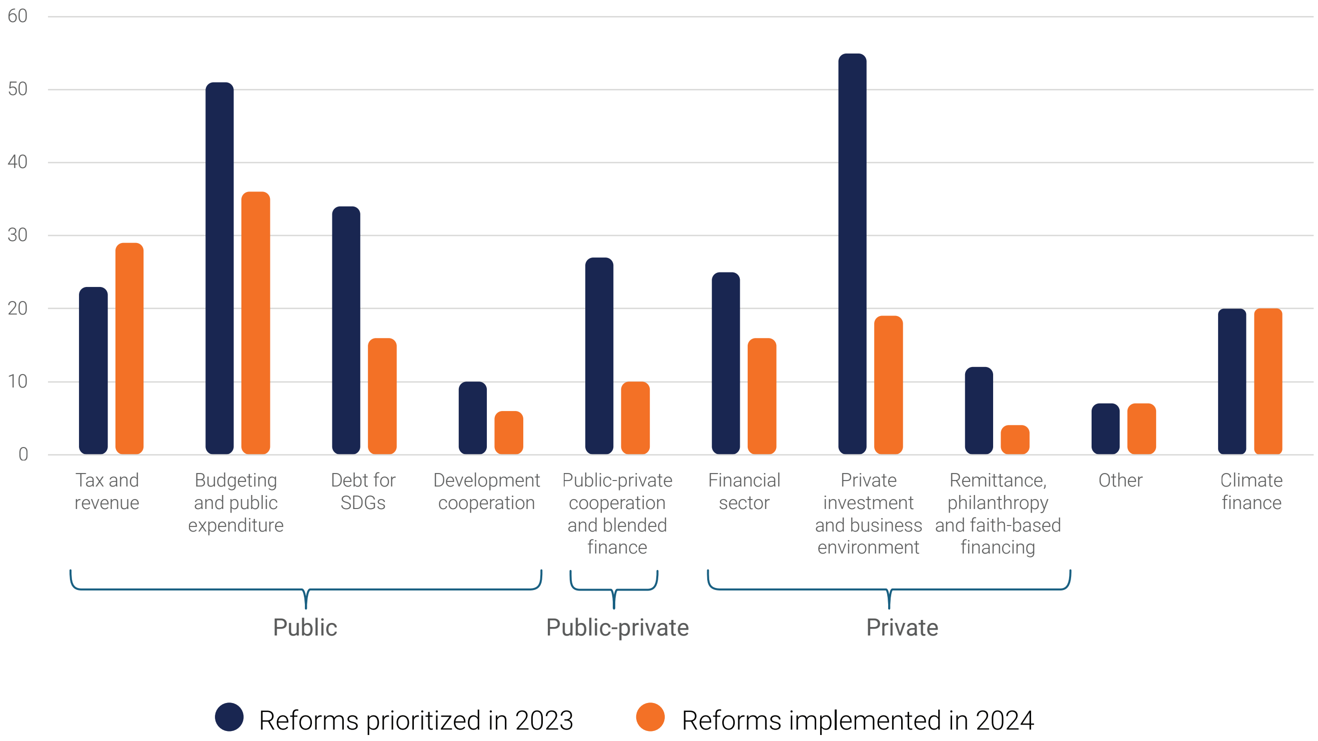
"Integrated national financing strategy includes critical measures to finance sustainable development priorities, including the introduction of SDG-aligned, results-based, gender-responsive budgeting, ensuring debt sustainability, developing innovative, sustainable financing instruments, adoption of ESG standards, and promoting impact investments."

H.E. Javkhlan Bold, Minister of Finance, Mongolia

The experience in Mongolia is indicative of similar financial outcomes that are beginning to emerge across many of the countries using the INFF approach. Analysis of the results of the INFF survey found 143 reforms shaped by country-led INFFs currently under implementation. This is equivalent to 54 percent of the 264 reforms that were identified in the previous INFF survey as having been prioritized for immediate action (Figure 4).[51]

A number of the more advanced of the reforms that have already been implemented can be assessed to understand the intermediate financial outcomes that are emerging.[52]

Figure 4. Financing reforms shaped by INFFs



Source: 2023 INFF survey

INFFs are catalysing and accelerating a shift towards SDG-aligned public finance. A growing number of countries have shaped PFM reforms centred on development outcomes through their INFF. Among the reforms being implemented, 61percent are concentrated on public finance, with tax, budgeting reforms and use of sustainable debt instruments being the most prominent (Figure 2).

On the budgeting side, these range from adaptations to budget call circulars, tagging of budget proposals, enhanced monitoring of outcomes from budget programmes and incorporating an SDG lens into monitoring, oversight and auditing of the budget. These are both bringing an SDG connection into key elements of the budget cycle and strengthening the ability to manage the budget for cross-cutting priorities. In Colombia, for example, the Government adopted an SDG budget-tagging system in 2020, and has since increased SDG-aligned expenditure from $58 billion to $68 billion in 2023 (see chapter 2). The Government of Uzbekistan uses a similar system to present public expenditure in the Citizen's Budget, with SDG-aligned expenditure having increased from $10 billion in 2020 to $14 billion in 2022 (see chapter 4). Overall, 32 countries using the INFF approach are currently establishing or have some kind of SDG budgeting system in place. Total public expenditure in these countries is projected at $1.8 trillion in 2024, and will reach $2.2 trillion by 2028.[53]

The reduction of harmful expenditures to redirect public finance for the SDGs is an increasing area of focus across many countries. The Government of Lao People's Democratic Republic has established a tax expenditure database, commenced tax exemption evaluations, and is using the findings to inform policy reforms that include eliminating tobacco tax incentives, recognizing that Lao People's Democratic Republic has one of the lowest tobacco excise rates in the region. These efforts, in collaboration with the UNDP and the World Health

Organization (WHO) could potentially generate $17 million in additional annual income, equivalent to over one fifth (22 percent) of the Government's total health care expenditures in 2018.[54]

Other countries are aligning tax and debt with the SDGs. Kyrgyzstan, for example, has adjusted its tax code and established a system for monitoring the SDG alignment of tax expenditure, while Ghana, Armenia, Comoros and others are strengthening and aligning different aspects of tax policy with the SDGs (see chapter 2).

Many countries are also innovating in SDG and thematic debt instruments. Indonesia has issued more than $10 billion in thematic bonds (details seen in chapter 3), while Benin issued a €500 million sovereign SDG bond in 2021 and is currently developing a pipeline of projects for a planned blue bond issuance (see chapter 2). Cabo Verde established the world's first blue economy sustainable financing platform which has hosted six sustainable bond issuances totalling over €35 million to date, and agreed a $153 million debt-for-nature swap with Portugal (see chapter 3). In Gabon, the Government and The Nature Conservancy concluded mainland Africa's first-ever 'debt-for-nature' swap, refinancing $500 million of Gabon's national debt and earmarking $163 million in savings for marine conservation. The deal was facilitated by the political risk insurance provided by the United States of America's International Development Finance Corporation, which enhanced the credit profile of the issuance.[55] This is expected to unlock $163 million in new funding for ocean conservation.[56] Uruguay is developing its INFF building on the experience with issuances of $2.2 billion[57] in key performance indicator (KPI)-linked bonds that have accelerated the country's transition to green and inclusive growth since 2022.

INFFs are also catalysing coherent consideration of development outcomes across the revenue and spending sides of public finance. For example, countries such as the Maldives are reducing fossil fuel subsidies on the revenue side, while strengthening targeted social protection on the expenditure side to mitigate the social impacts of rising fuel prices.

The opportunity over the medium to long term is for INFFs to catalyse PFM systems, budgets and tax policies that have the SDGs at their core and generate enhanced sustainable development outcomes.

On the private finance side, INFFs are providing a catalyst for reform in private and financial markets, to both unlock capital and embed the SDGs into the fundamentals of the market.

There is a growing focus on embedding the SDGs into the architecture of the financial sector, including strengthening impact management standards, capacity and sustainability reporting. In Thailand, for example, the Securities and Exchange Commission has established guidelines for listed companies, with the aim of incorporating the SDGs into business operations and strategies, and provided impact measurement and management tools for disclosure reporting (see chapter 3).[58]

Many countries are deploying blended finance and innovative instruments to mobilize finance from capital markets. In Tanzania, the Tanzania Agricultural Development Bank (TADB) unlocked $8 million in blended finance to finance 10 agriculture projects. In 2023, two commercial banks (CRDB and NMB) issued $66.8 million worth of green and social bonds. In February 2024, the Water Authority of Tanga issued the country's first subnational green bond, leveraging $20.8 million (see chapter 3). In Rwanda, IREME Invest,[59] supported by the Rwanda Green Fund and the Development Bank of Rwanda, employs a dual-approach mechanism to catalyse private sector participation in climate initiatives. It comprises a Project Preparation Facility that disburses grants to projects ready for investment, and a Credit Facility that offers concessional loans and credit guarantees to mitigate investment risks. Since its launch at COP27, the facility has attracted over $300 million in investment, showcasing how strategic use of mixed financing can bridge the gap between capital markets and climate action goals.[60]

Alongside the resources already mobilized, others have set ambitious targets for pipeline investment to be mobilized. In Benin, for example, reforms to the investment code and business environment have been implemented alongside the establishment of the Glo-Djigbé Industrial Zone, which is targeting the attraction of at least $1.4 billion in investment in its first phase, aiming to create 300,000 jobs by 2030.[61]

While these reforms present only a partial picture of the agenda being advanced through INFFs in policy areas where intermediate financial outcomes are more quantifiable, they highlight the transformative nature and scale of country-led financing strategies.

Taken together, the quantifiable reforms emerging to date from a sample of 17 countries show leverage of a combined sum of approximately $16 billion in additional financial resources for the SDGs and enhanced SDG alignment, and scope for alignment of more than $32 billion in existing finance (see definitions in box 3).

In additional, many reforms have catalysed institutional and strategic changes that, although not immediately resulting in direct financial outcomes, are crucial for establishing the necessary capacities and infrastructure, paving the way for sustained future leverage and alignment (see chapter 4).

Box 7. G20 Framework of voluntary support to INFFs

G20 leaders endorsed the G20 Framework of voluntary support to INFFs in 2021, under the Italian G20 presidency.[62] The G20 Framework aims of supporting the operationalization of INFFs within the individual and collective support of G20 Members at the country level. The G20 Framework covers five areas:[63]

1. Promoting knowledge exchange, technical assistance and training for INFFs;
2. Aligning international support for country-led INFFs;
3. Engaging G20 Member domestic constituencies to support country-led INFFs;
4. Prioritizing the integration of economic, social and environmental sustainability within INFFs; and
5. Reviewing progress and continuing to build awareness of INFFs.

Endorsement of the G20 Framework catalysed the establishment of the INFF Facility, building on partnerships with G20 Members the European Union and Italy, as well as Spain (a permanent observer to the G20) and Sweden, and Members also continue to use the G20 Framework in their cooperation at the country level.[64] In 2023, under the Indian Presidency, G20 members reiterated their support for the G20 Framework, and committed to scale up technical assistance and capacity development for the implementation of INFFs in the G20 2023 Action Plan to Accelerate Progress on the SDGs.[65]

Box 8. Integrated local financing frameworks

Subnational governments are at the front line of implementing SDG programmes and policies, and stimulating SDG-aligned investment. Ensuring they have the power, capacity and adequate financing to do so is critical. Use of the integrated local financing framework (ILFF) approach by subnational governments can strengthen financing for devolved initiatives, enhance financing for local-level service delivery and build coherence across the devolved financing policy toolkit.

Increasingly, subnational governments are taking advantage of this approach. A total of 16 countries have an explicit subnational element to their INFF.[66] This includes efforts in Zambia, for example, where the DFA conducted at the national level is now being replicated for one district in an important learning experience supported by the UNDP-UNICEF Global Finance Flagship. In Nigeria, six states are using the INFF approach following the launch of the national financing strategy (see above). Pakistan's Punjab province became the first subnational government to launch an INFF financing strategy in February 2024 (see chapter 3). In some countries the approach is being used by individual subnational governments, while in others the approach is being applied to the architecture within which subnational administrations work across the country.

The important role that decentralization plays is evident in the operational financing strategies. In Botswana, the financing strategy prioritizes strengthening local governments fiscally and operationally, with a focus on decision-making and capacity to raise revenue, ecological fiscal transfers, improving effectiveness through sectoral decentralization plans, and incentivizing stronger SDG monitoring, reporting and evaluation. In Guinea, the Government is strengthening capacities for national and local planning, budgeting, project programming, and monitoring and evaluation. This includes developing financing strategies at local levels, increasing the decentralization of public expenditure, and improving the traceability of funding flows from development partners. A methodology for local-level SDG budgeting and monitoring and evaluation has been developed with the support of the Joint SDG Fund and the UNDP-UNICEF Global Finance Flagship. The Government will map the green economy private investment ecosystem to engage MSMEs in safeguarding and protecting the economy and local communities. In Uganda, the financing strategy prioritizes adopting consistent approaches to revenue, fees and charges across local governments, including enhancing capacity and consistency in the collection of property taxes and fees.

The growing use of the ILFF approach, and high interest from subnational governments in many countries, shows the value it can provide at the local level. The approach can encourage greater alignment between development priorities, delivery mechanisms and financing sources across levels of government, and assist in increasing coherence between them.

Box 9. Global Accelerator on Jobs and Social Protection for Just Transitions

Launched by the United Nations Secretary-General in September 2021, the Global Accelerator is the United Nations system's collective drive to accelerate a job-rich, human-centred and climate-resilient recovery and structural economic transformation.

The Accelerator operates through three complementary and mutually supportive pillars: integrated and evidence-based national strategies and policies, integrated financing combining domestic and international financial sources, and enhanced multilateral cooperation. These pillars aim to increase the level and coordination of the multilateral system's efforts to help countries create 400 million decent jobs by 2030, including in the green, digital and care economies, and to extend social protection coverage to the 4 billion people currently excluded. Implementation of the Global Accelerator is supported by a technical support facility bringing together the Food and Agriculture Organization of the United Nations (FAO), ILO, UNDP, UNICEF, UN WOMEN and World Food Programme (WFP).

INFFs can contribute towards the objectives of the Accelerator, advancing efforts to boost domestic resources and expand the tax base, as well as mobilize further development assistance and international support.[67] Countries developing national Accelerator road maps can build on the reforms already being advanced through INFFs, and ensure that the priority actions for decent jobs and social protection are adequately addressed in the country's Financing Strategy.[68]

Platforms for integrated policymaking

The 2030 Agenda was designed as an integrated and indivisible agenda, emphasizing the importance of leaving no one behind while recognizing the many connections that exist between goals across the social, sustainable and economic dimensions of sustainable development. A recent literature review of the connections across the SDGs found more than 9,000 linkages between the 169 targets of the SDGs.[69] More than 80 percent of these are synergies, where progress in one area reinforces and contributes towards progress in another, while 10 percent are trade-offs, where progress in one area deteriorates progress in another.[70]

At the national level, policymakers must deal with the complexity of sustainable development priorities, as well as those of finance itself. Though development policies may be mostly synergistic, there is a crucial trade-off at the heart of finance policymaking: resources are scarce, and funds commitment to one investment cannot then be invested in another. At the same time, the trade-offs inherent in managing fiscal sustainability and economic stability, political demands, risk, and perception of risk must be considered. So too must the public or private nature of different priorities, and the implications for where public finance is needed, where private investment may be available or where mixed approaches may be required, including consideration of risk, as well as factors such as distribution across population groups and geographies within the country.

The question of how to develop integrated finance policies is crucial, and financing strategies offer potential as a platform to address some of the key synergies and trade-offs in financing for sustainable development at the country level.

The experience of the Maldives is one of a growing number of examples of integrated finance policymaking in practice. Many of these initial examples focus on climate, deepening a crucial connection between financing for NDPs and climate commitments—and demonstrating how similar integration can occur more widely across the sustainable development agenda as a whole.

Maldives is a SIDS characterized by high climate and environmental vulnerabilities from both slow and rapid onset events, with unequal effects across society, particularly for women. The country is estimated to require from $800 million to $1.5 billion per annum until 2030 in climate investments to meet its adaptation and mitigation needs over several sectors. This is an amount well beyond the scope of current public finance.[71] Dependency on key sectors such as tourism is high, and the shocks of the COVID-19 pandemic had a profound effect on the industry, private sector activity, fiscal revenues and debt sustainability.

During 2020, under the leadership of the Ministry of Finance and with support from UNDP and several other United Nations agencies, stakeholders from across the Government, including the Ministry of Environment, along with the private sector, civil society, development partners and others, came together to strategize about the challenges and opportunities for financing. Within the context, and given the stakeholders around the table, it was determined from the outset that the focus would be on financing for both the country's Strategic Action Plan and its nationally determined contributions (NDCs) to the Paris Agreement, with a gender equality focus.

A series of financing dialogues was convened over 2022 and 2023 that became a forum for integrated policy design across the financing of these agendas. This informed the development of a 'Gender-responsive Climate Financing Strategy'[72] that was launched in March 2023 by the Minister of Finance.[73]

The Maldives' financing strategy aims to drive three major transitions for the country (Figure 5). The public and private investment required for these three transitions will be mobilized using 16 policy objectives and 127 actions.

The strategy speaks to the interconnected nature of financing for climate, gender equality and development goals, setting out integrated policy approaches. At the time of writing, one year on from the launch of the financing strategy, implementation of 6 of the 16 policy objectives is well under way by several agencies involved in the Finance Strategy formulation. The Government has pledged to phase out fossil fuel subsidies in 2024/25,[74] and to use some of the resources saved to create fiscal space which would see greater expenditure on areas such as accelerating energy transition, and putting in measures to ensure that removal of subsidies have a minimal impact on lower income households in the country.

The Maldives Finance Strategy is inward facing and has several measures designed to unlock domestic resources for climate action. As part of this work, an ESG framework is being developed with the Capital Market Development Authority, the regulator for capital markets in Maldives for the listed corporate sector in the country. The reporting will begin on a voluntary basis in the 2024/25 cycle, and will gradually move towards a mandatory approach in the future. With nature and governance indicators tailored to the Maldives' context, ongoing capacity-building efforts among the private sector and the planned establishment of a digital aggregation infrastructure in the Capital Market

Development Authority, this is the first phase towards more impact-oriented reporting on the private sector in the future.

In 2023, following the general elections, the Maldives underwent a change in Government. The new Government is putting in place institutional structures to coordinate and accelerate delivery across the financing strategy. A Sustainable Finance Hub is being established in the Ministry of Finance, to coordinate delivery of the financing strategy in collaboration with others. The hub will have a board of advisers, to advise the Ministry of Finance and other line ministries on climate finance and macro fiscal matters of relevance, to ensure delivery of policy in an integrated manner, and with ongoing outreach to ensure continued close engagement beyond the Government.

> "The Maldives considers all forms of development financing as essentially climate finance given its fragile ecosystems."
>
> Maldives Gender-responsive Climate Financing Strategy

Figure 5. 16 finance policy objectives to drive three key transitions for the Maldives

Challenges:

- Remaining a fossil fuel economy
- Negative impacts of climate change
- Lack of investments in climate change

Opportunities:

A Better aligning finance flows towards a sustainable agenda	B Main streaming sustainability into risk management and transparency	C Mobilizing new sources of sustainable finance
Public spending efficiency by improved procurement regulations	Fiscal incentives and carbon pricing	Climate risk insurance
Channelling public/private investments into renewable energy sources	Financial stability by climate transition/physical risk management	Sustainable banking products
Strengthening subnational finance	Disclosure and transparency practices	Public environment-linked funds
Sustainable finance taxonomy development	Capacity building on sustainable finance	Green Fund
Strengthening alignment of national budgeting against SDGs		Promoting foreign direct and domestic investments in sustainable investments
Phasing out fossil fuel subsidies		International cooperation

Source: Maldives Gender-responsive Climate Financing Strategy

The experience in the Maldives highlights how INFFs can shape integrated policies in relation to climate and NDCs in particular, within a 'whole-of-economy' approach. The Government of the Maldives has itself advised others on this approach,[75] and a growing number of countries are using the INFF to advance integrated policymaking across climate and sustainable development plans.

Box 10. Nature and biodiversity financing and INFFs

Since 2014, over 40 countries have designed national biodiversity finance plans, with the support of UNDP's Biodiversity Finance Initiative (BIOFIN),[76] and over 90 will begin work on theirs in the short term. INFFs can help advance national nature and biodiversity finance solutions within central planning and financing processes, integrating with and complementing biodiversity finance, including addressing financing with a nature negative impact.

Many of the finance policies and reforms shaped within INFF processes have an important bearing on nature, while biodiversity-specific financing solutions have significant impacts on not only the public, but also private financing policies. For example, UNDP BIOFIN has recently launched the 'The Nature of Subsidies: A step-by-step guide to repurpose subsidies harmful to biodiversity and improve their impacts on people and nature',[77] which has important implications for enhancing fiscal space for enhanced sustainability impact. The adoption of disclosures by companies, in line with recommendations from the Taskforce on Nature-related Financial Disclosures, will enable businesses and financial institutions to better assess biodiversity risks, impacts and opportunities on their decision-making, enabling a shift in financial flows from nature-negative to nature-positive outcomes. Some countries have already started investigating the current capacities and institutional processes related to nature financial disclosure at country level,[78] with the potential to develop regulations and tools for biodiversity expenditure reporting, and harmonization of standards and data availability. In addition, incorporating biodiversity into national and regional sustainable finance taxonomies would enable tracking financing towards biodiversity and implement policy measures to promote financing towards specific biodiversity and nature objectives. INFFs play an important role in situating these measures within the broader financing policymaking, such as the umbrella sustainability reporting framework, implementation of taxonomies across the financial sector, etc. Therefore, mainstreaming biodiversity financing within INFFs, can offer opportunities to elevate biodiversity finance solutions within central planning and financing processes.

Across the world, a growing number of countries are using INFFs as a platform for integrating public and private finance within a coherent, consolidated and mission-oriented approach to financing sustainable development, while attracting essential foreign resources to complement more robust domestic financing systems. An increasing number are using the INFF for an integrated approach to financing across a joint agenda encompassing their NDPs and their NDCs.

With the cost globally of delivering on NDCs estimated at $5.8–5.9 trillion before 2030,[79] the greatest barrier to NDC implementation is access to finance at scale. From a public finance perspective, the decision on the Global Stocktake at COP28 recognizes the positive correlation between fiscal space and climate action to advance on a pathway towards low emissions and climate-resilient development. This recognition reinforces the Sharm el-Sheikh Implementation Plan, which stipulates that "delivering such funding will require a transformation of the financial system and its structures and processes." Meanwhile, efforts are also being strengthened at the United Nations Framework Convention on Climate Change (UNFCCC) Standing Committee on Finance to determine how to better account for private financing towards climate action and the New Collective Quantified Goal on Climate Finance, which will be at the centre of policy debates at this year's COP29 in Azerbaijan.

Climate finance is moving towards integrated financing as a strategic imperative for achieving the Paris Agreement, while financing strategies are, in turn, already incorporating climate action. This is evidenced by the number of climate-oriented reforms that currently comprise approximately 20 percent of all financing reforms in those countries where financing strategies are already being operationalized.

More than 10 countries are currently piloting this joint agenda linking their INFFs to their NDCs. In Cambodia, for instance, the INFF is facilitating financing for achieving the twin long-term goals of climate neutrality and high-income status by 2050. The Government of Belize is beginning the development of an INFF which will streamline climate finance and investment within key NDC-relevant sectors across the financial system, while paying close attention to ensuring adequate social sector spending and avoiding exacerbation of preexisting public debt burdens on future generations.[80] Furthermore, in SIDS like Cabo Verde and Sao Tome and Principe, emphasis is being placed on economic diversification and adaptation to climate and macroeconomic shocks, including dependence on imports, by leveraging diverse forms of sustainable finance instruments for inclusive and sustainable growth. Thailand, moreover, is building on its INFF process at the national level to further decentralize finance and localize climate action consistent with its NDC commitments in the areas of waste, biodiversity and renewable energy.

These financing strategies and ensuing actions, moreover, require corresponding monitoring and review frameworks to ensure their effects in fact corresponds to claims of impact. The challenge here is not only to determine 'what counts as' climate finance, which is also the subject of ongoing debates at the UNFCCC and other policy forums, but also ensuring that increasingly diverse forms of climate finance are living up to their declared objectives. Herein, Sao Tome and Principe is spearheading the development of a monitoring, reporting and verification system for climate finance that will be embedded at the core of its monitoring and review mechanism under the INFF. The proliferation and aggregation of these practices could eventually lead to a more comprehensive, networked approach to monitoring and understanding the inherently diverse nature of climate finance across the public and private financing spectrum.

These countries are at the forefront of using INFFs as a vehicle for mainstreaming climate action throughout economic and financial systems to achieve transformative effects. Seizing this opportunity will be crucial, as the decisions made now on climate finance, and the steps taken to mainstream climate into the financial ecosystem, have magnified effects down the road. While the cost and complexity of doing so is high, the costs of inaction are higher. Investments made now will engender incremental savings over time. Financing the transition away from fossil fuel-driven economies will become more expensive moving forward, as the price of climate action through NDCs is compounded by the effects of climate change that will inevitably force changes upon us. Financing climate action now will not only make the transition more comfortable by avoiding unpleasant externalities, from forced migration to polluted air; it will also make it more affordable as investments in renewable energies, sustainable agriculture and more efficient transportation bear fruits over time.

A 'whole-of-economy' approach that embeds climate action across the whole spectrum of sustainable development and finance will be indispensable. Rather than treating these in parallel or through the prism of public finance alone, climate action—as reflected in the NDCs—must be embedded across the entire landscape of economic development and finance, including private sector engagement. To this end, ESG, green, blue, sustainable, transition, sustainability-linked and other categories of financial instruments should no longer be relegated to subcategories of a larger world of financing. The priorities of these instruments must be integrated into finance and economic activities as a whole, rather than separated into discrete activities.

The examples from the Maldives and other countries advancing in this direction show how the INFF can be used as a platform for this kind of integrated policymaking in relation to climate priorities in particular. Other examples such as Mongolia (see above) show the potential in relation to nature objectives, or the potential to address the integrated nature of policymaking across different areas of finance, as with the Maldives' reduction in fossil fuel subsidies. In Uganda's case, the INFF process has helped the Government to develop a carbon market framework with regulations and guidelines in place to prepare the country participate in Article 6 mechanisms of the Paris Agreement. To date these represent a small, albeit growing, number of countries using the INFF approach in this way. Their example highlights how other Governments may wish to use the INFF approach to not only set out a financing strategy that holistically covers all areas of sustainable development and financing policy, but an integrated financing strategy that leverages the synergies and addresses the trade-offs between them.

As these countries and others move forward, the INFF Facility has established a new Climate and NDC window, in conjunction with UNDP's Climate Promise, to scale up financing for ever-more ambitious NDCs, to simultaneously achieve the commitments under the Paris Agreement and the SDGs.

Box 11. Mariana Mazzucato—a 'mission-oriented' approach to finance

The mission-oriented approach to finance advocated for by Mariana Mazzucato calls for a proactive state role in redirecting economic growth towards societal goals of the SDGs.[81] Across her work,[82] Mazzucato urges Governments to shift roles from being 'market fixers' to become 'market shapers.' This involves fostering cross-sector collaboration, developing long-term, coherent, yet agile policies, strategically guiding innovation with room for experimentation and learning from failures, and balancing risk- and reward-sharing between public and private sectors.

As highlighted by Mazzucato, a fundamental cause leading to today's 'permacrisis' lies in our current financial system, which is significantly disconnected with real economy and societal benefits. A significant portion of global capital is tied up in short-term transactions in stock, insurance and real estate assets, misaligned with the needs of environmental and social projects that require long-term patient investments.

To realign finance with long-term, sustainable goals, Mazzucato emphasizes the need for mission-oriented approaches to finance. This entails bold budget reforms to channel public funding into early-stage innovation, implementing effective pricing reforms to internalize the externalities, and leveraging a full range of public investment institutes to scale demand markets. It also involves creating a conducive investment environment to crowd in private capital and a system-wide coordination mechanism to ensure a safety net for an equitable transition at both domestic and global levels.

Recommendations for FfD4

The experience with country-led financing strategies points to several important recommendations for FfD4, and for other key international policy moments regarding financing for climate and nature:

Recommendations for the FfD4 outcome:

1. *Work towards an outcome encompassing interconnected reform of the international financial architecture and commitments to advance INFFs and ILFFs.*

2. *Building on the AAAA, recognize INFFs and financing strategies as the primary financial planning tool at the centre of country-level efforts on FfD, guiding public, private, domestic and international financing policy for sustainable development.*

3. *Solicit commitment by the international community—IFIs, bilaterals and international organizations—to align programming, technical assistance and use of instruments on financing with the priorities articulated through country-led INFFs, and to connect coordination mechanisms and country platforms with the national institutions leading INFF implementation.*

Recommendations for Governments:

1. *Use the INFF approach as a platform for the design and delivery of integrated policies for financing NDPs, climate plans and nature/biodiversity plans together, drawing on public and private sources of finance.*

Recommendations for the international community:

1. *Align IFI, bilateral and multilateral partner programming, technical assistance, and use of financial instruments at the country level, with country-led financing strategies and INFFs, and connect coordination mechanisms and country platforms with the national institutions leading INFF implementation.*

2. *Promote support for INFF implementation, particularly for LDCs, SIDS and LLDCs, by IFI, bilateral and multilateral partners.*

Recommendations for civil society:

1. *Reach out to steering committees early in INFF processes to ensure participation and remain engaged through implementation to promote inclusive, sustainable financing policy design and delivery.*

Recommendations for the private sector:

1. *Engage with INFF processes and financing strategies to shape policy solutions that can unlock sustainable, inclusive private investment that advances national sustainable development priorities.*

13 operational financing strategies

Breakdown of reforms and actions set out in the 13 operational financing strategies, by purpose (leverage/alignment/both; left hand charts) and by areas of financing (public/public-private/private; right hand charts).

Chapter 2

Public finance: Tax, expenditure and debt

Headline messages

- PFM reform has traditionally focused on improving processes and systems, though many Governments are increasingly bringing development outcomes directly into public finance systems.

- A total of 32 countries are advancing reforms to embed the Sustainable Development Goals (SDGs), gender equality, climate, nature, health, education, nutrition and other social and sustainable priorities at various entry points throughout the budget cycle, from the preparatory and approval phases through to execution, monitoring and auditing.

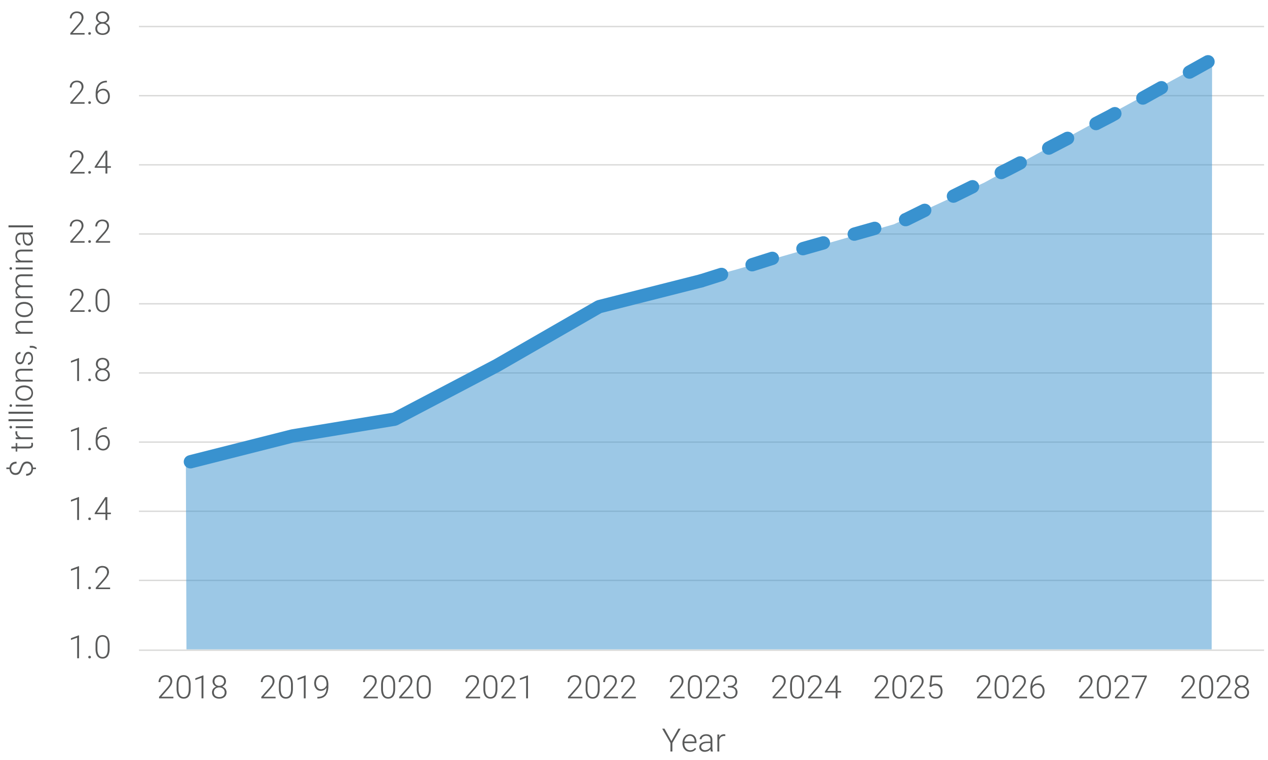
- A growing number of countries are reconfiguring key elements of tax policy to align distributional impacts and incentives with sustainable development priorities, thereby including fairness and equity in tax policies.

- While managing for debt risk, many countries are innovating to issue or refinance debt in ways that unlock capital for investment in sustainable development. There is significant growth and innovation in the use of thematic debt instruments.

- Moving forward, INFFs are becoming a platform for integrated public finance policymaking where the lens of gender equality, climate, social protection and other priorities is applied coherently across tax, debt and expenditure policies.

Public finances are a formidable source of financing for the SDGs. The countries using the INFF approach spent a combined $2.2 trillion in 2023, excluding interest payments (Figure 6). Public spending in INFF countries is likely to increase further over the medium term.

Figure 6. Public spending in countries using the INFF approach



Source: Calculated from the International Monetary Fund (IMF) World Economic Outlook, October 2023 release, and World Bank DataBank.
Note: Figures exclude interest payments.

Not all public spending, however, is aligned with the SDGs. Globally, fossil fuel subsidies rose to 7.1 percent of GDP in 2022—a $2 trillion increase on 2020.[83] Other areas of spending may be inefficient or inequitable. Overall, 48 developing countries are spending more than 10 percent of their revenues on net interest payments.[84]

The challenges of effectively mobilizing and spending public finance for sustainable development impact remain central to discussions on finance policy at the country level.

Tax revenue mobilization has been slow in emerging markets and developing economies, and there remains considerable potential for increasing these revenues. The IMF finds that a 9 percentage point increase in the tax-to-GDP ratio across low-income developing countries, for example, could be realized through tax system reform and institutional capacity-building.[85]

At the same time, policymakers must grapple with the challenge of aligning tax and public spending policies with the SDGs. The incorporation of key development priorities such as gender equality, climate resilience, biological diversity and poverty reduction in public finance systems has proved challenging. These cross-sectoral policy themes add additional complexity to aligning planning, tax policy, public spending, and monitoring systems. Within governance systems that are typically structured around functional siloes, it is difficult to have adequate focus on the trade-offs and synergies between taxation and spending policies, especially those related to income, gender and territorial inequalities.

Many of the bottlenecks in the management systems of public finances—such as inefficiencies in tax administration, archaic processes and IT systems, lack of coordination and synergy between tax and expenditure policies, an ineffective legal and regulatory framework, a weak check and balance system between the executive and legislature, lack of transparency, and weak budget credibility—undermine the alignment of public finance with the SDGs in many countries. An additional constraint is the lack of awareness of the SDGs framework, how to translate the SDGs into development priorities, and how to effectively allocate resources and monitor and evaluate impact.

To address these challenges, many reform innovations and pathways have been introduced by different countries. INFFs provide a platform through which countries are shaping and advancing these reforms within their political, institutional and administrative contexts, and importantly in alignment with their development priorities. Reforming public finances systems, institutions and processes is at the heart of countries' financing strategies. More than 60 percent of the primary reforms that 50 countries are implementing or have already delivered are focused on public finance (see Figure 4 in chapter 1).

These reforms are focused on making systemic improvements to the budgeting system, public investment management system, public debt management and tax revenue administration, strengthening transparency and accountability, and ensuring synergies between these components in achieving sustainable development. The priorities also include improving tax policy, launching bonds, undertaking debt swaps, strengthening PPP and addressing the challenge of illicit financing.

The reforms are aimed not only at improving the efficiency of public spending and mobilizing revenues for the SDGs, but also introducing equity and fairness in tax and spending policies. In terms of thematic areas, the financing strategies have emphasized enhancing gender equality, building climate resilience and strengthening social sector policy.

Looking across these public finance priorities shaped by and being advanced through country-led INFFs, many are focused on embedding the SDGs into PFM systems. At the same time, INFFs are prompting questions about how to integrate key cross-cutting priorities, such as gender equality, poverty reduction or climate change, into both the resource mobilization and expenditure sides of public finance in a coherent way.

This chapter discusses some of the pathways that have been implemented by different countries, while taking stock of the types of initiatives related to public finance. In doing so, it provides some key lessons to consider for FfD.

Impact-oriented budget systems

Traditionally, PFM reforms have focused more on improving processes and systems than on achieving development outcomes. At the same time, policy and planning for the SDGs have had little impact on PFM reforms. The PFM reforms, informed largely by assessment systems such as Public Expenditure and Financial Accountability and Public Investment Management Assessment, have improved governmental focus on the system of planning, budgeting, monitoring and audit—including transparency and accountability. Yet there is little evidence that the PFM reforms have led to improved quality of public spending to achieve development outcomes, or that issues such as equitable spending have been adequately addressed.[86]

Cross-sectoral thematic priorities bring added complexity. To overcome the challenge of cross-sectoral policy, reforms related to governance and budgeting systems have been innovated using different pathways. Examples include green/climate change budgeting, gender-responsive budgeting, budgeting for child rights and budgeting for biological diversity.

Thirty-two countries using the INFF approach are advancing SDG-budgeting-related reforms of various kinds. Many of these relate to sub-thematic areas of budget alignment—bringing gender equality, climate change, biological diversity, well-being, child rights or the SDGs into the budgeting system. These budgeting innovations present a set of tools and approaches with the aim of aligning development priorities with the national and subnational budgets.

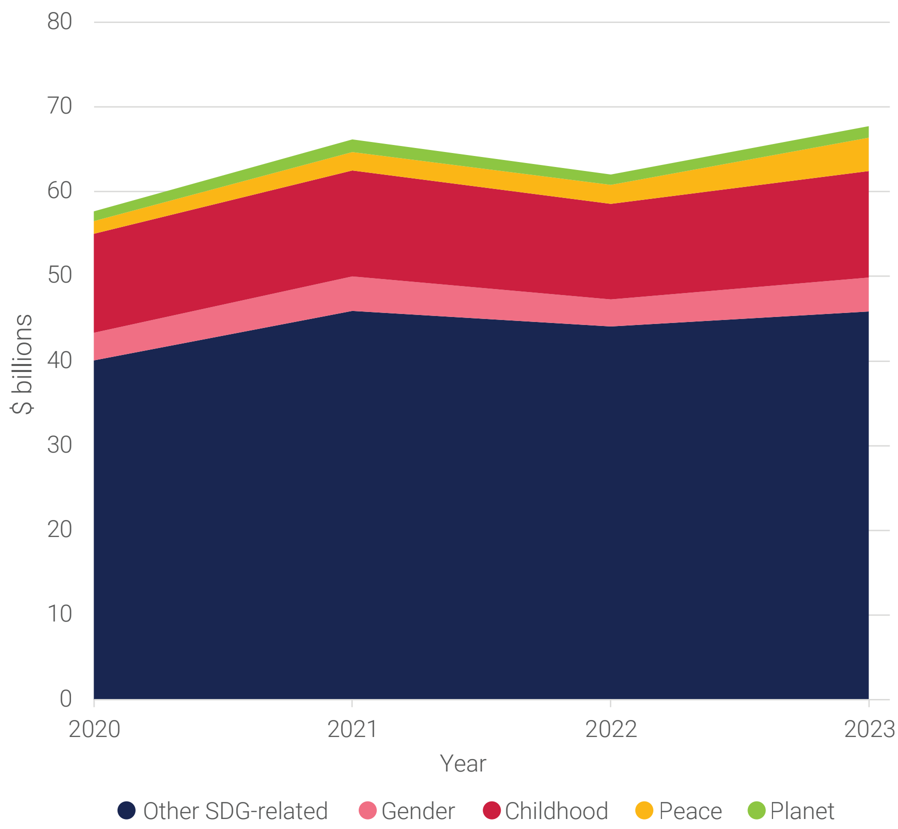
Colombia has introduced a system of SDG budget tagging, which has allowed it to have more and better information on how the distribution of public resources might impact the achievement of the SDGs. This system monitors the alignment of relevant expenditure lines in relation to all SDGs, both at the goal and target levels. In addition, an online information tool on the alignment of the national public budget with the SDGs provides Colombia with information on expenditure that is specifically related to four cross-cutting priorities: gender equality, children, the planet, and the peace agreement.

The SDG budget-tagging system is designed to give greater insight into how the public budget is being used relative to national sustainable development priorities, in order to facilitate more-effective management of public resources (Figure 7). Since its establishment in 2020, SDG-aligned expenditure in the budget has grown by 17 percent, from $58 billion to $68 billion in 2023.[87] This system led to the development of a territorial planning toolkit to aid in planning and budgeting at the subnational level, with an initial rollout by four municipalities to date, and a Policy Priority Inference Model[88] that helps identify the impact of budget decisions on the SDGs.

At the same time, the SDG budget-tagging system enables easy identification of lines of expenditure and projects that are relevant for thematic bond issuances. As the Government considers taking forward further thematic issuances, this system can underpin monitoring and reporting on the use of proceeds for these issuances.

Alongside this SDG budgeting system, the Government has also jointly established the district programme of payments for environmental services (PES) with the District Secretary for the Environment and the Mayor's Office of Bogotá. This is the first PES mechanism implemented in a capital city and its implementation helps guarantee the provision of water to 7.8 million people living in Bogotá. It is estimated that the programme will mobilize up to $31.8 million from regional and local resources, in addition to the established national financing sources.

Figure 7. SDG-aligned expenditure in Colombia



Source: Data taken from Colombia's SDG budgeting dashboard. Accessed March 2024.

Note: Figures are in nominal $ billions at the verified stage of the budget for each year.

"As [the] National Planning Department, we are highly interested in leveraging these results and sharing it [sic] at the international level. We also have special interest to bring the SDG financing tools developed at the national level to the subnational levels of government most in need, where public enhancement is paramount."

Diana Carolina Escobar, Director of Public Investment Projects and Information, National Planning Department, Colombia

While Colombia has focused on the SDGs as a whole and has followed a budget-tagging-led approach, other countries are adopting approaches tailored to their priorities and institutions.

Bangladesh, for example, has focused on climate budgeting and undertook a top-down approach to resource allocation by introducing a Climate Fiscal Framework that develops fiscal scenarios for developing the Strategic Fiscal Framework.[89] Climate change is now a core part of Bangladesh's budget documents, which include a section dedicated to this issue. Budget call circulars now provide budget instructions to line ministries on climate change, and key climate performance indicators have been introduced in the Medium-Term Budgetary Framework. This informs expenditure-tracking through a climate budget-tagging system which enables annual budget reports to be produced for parliament. Climate change expenditure reporting is now part of the regular expenditure reporting, which is critical for informing climate-change-related investments.

With these systems in place, the IMF Resilience and Sustainability Facility approved a $1.4 billion loan for Bangladesh in January 2023. The RSF expands fiscal space to finance climate-investment priorities that build resilience against long-term climate risks, and to improve climate-spending efficiency and enable large-scale climate investments, particularly the priorities identified in the National Adaptation Plan of Bangladesh, the Bangladesh Delta Plan and the NDCs.[90] Certain reform measures were adopted under the RSF, including the sustainable public procurement policy and action plan, recommendations from the Task Force on Climate-Related Financial Disclosures, the disaster risk financing strategy, the climate in macroeconomic policy statement and the integration of climate-related risks in PPP.

Many other countries have a focus on spending on health, nutrition, education, social protection and other human-centred priorities that are vital to ensuring the SDGs are delivered, with a particular focus on leaving no one behind. Even though delivering on these priorities is critical, Governments face multiple challenges in ensuring accountability for adequate, effective and efficient spending on human capital. Budget allocations can be hard to justify through a purely financial cost-benefit analysis; bottlenecks in expenditure, procurement and delivery systems can discourage allocations; reliable income streams that would attract private capital while being sustainable for beneficiaries can be difficult to identify; and participation and transparency initiatives can complicate implementation and accountability.

INFFs afford countries embarking on financing strategies the opportunity to strengthen social sector spending by addressing these challenges. For example, Botswana has focused on social sectors (health, education, social protection, youth and gender) as a key policy area within its financing strategy. Other countries have shaped specific public or public-private finance reforms to support social sector spending or to generate revenue in a manner that aligns with social priorities. For example, Rwanda aims to establish efficient and evidence-based budget allocations in the social sectors to protect both outputs and outcomes. Meanwhile, Mongolia has applied programme budgeting with performance criteria for two key social sector ministries (the Ministry of Labour and Social Protection and the Ministry of Food, Agriculture and Light Industry) and the Government increased their budget by $200 million in 2023. The Government of Maldives has pledged to eliminate fossil fuel subsidies and support those who might be disproportionately affected, with other countries such as Botswana setting out similar changes in their financing strategy. Guinea has prioritized private sector opportunities that could have a high impact on social and environmental investment plans.

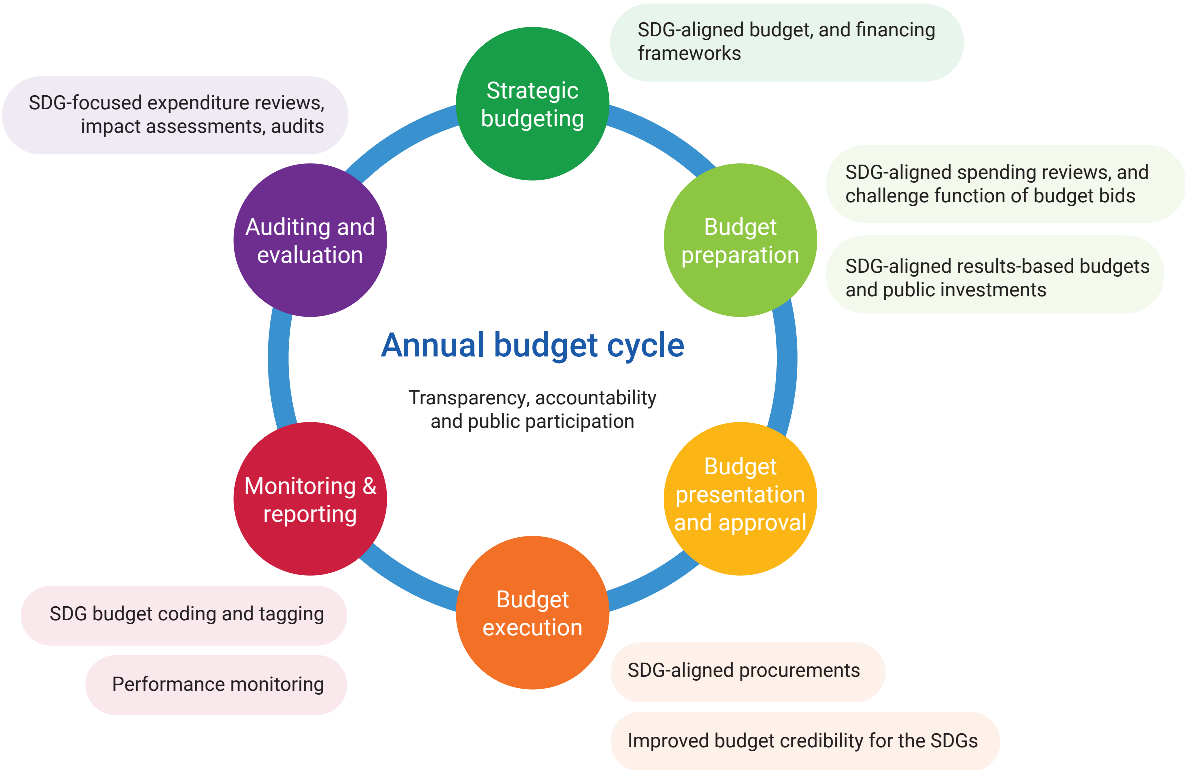
The potential of INFFs to advance social sector priorities will be demonstrated as more countries approach the stage of having government-endorsed financing strategies. The INFF survey finds that in 19 countries, the INFF will specifically support social sector development in general, while in 34 countries the financing strategy will support social sector expenditure. Most of these countries also aim to address climate change and their NDCs through the INFF. Thirty countries indicate that their financing strategy will support gender-specific reforms. A number of countries also refer to specific costings for health, education and social protection. The overlap in these countries, as well as the high number of countries that are using INFFs to develop integrated financing strategies that address climate, green and human development priorities, suggest that countries are finding significant synergies in pursuing INFFs and financing strategies in a joined-up manner.

The aforementioned experiences suggest that INFFs and financing strategies can help resolve many of the institutional, regulatory and budgetary obstacles that hinder SDG delivery while also strengthening the financial foundations of key development priorities. Moreover, by following certain promising pathways, such as those taken by Botswana and Namibia, the SDGs and financing reform policy can be integrated through strategic engagement with sector-level working groups, relevant ministries and constituencies. This gives the financing strategies a whole-of-society dimension that increases both their legitimacy and the likelihood of continued success. Monitoring and evaluation frameworks examining INFFs should look into the strategies outlined above in more detail to generate further insight.

The experiences of Colombia, Bangladesh and other INFF countries mentioned above illustrate the different approaches through which Governments are strengthening the connection between expenditure and sustainable development priorities. They are just some of a much wider range of experiences across countries, with different focuses, mechanisms and entry points tailored to the local context and institutions. Cambodia, for example, has introduced performance-informed budgeting as a system to integrate development planning and budgeting decisions. Armenia adopted results-based budgeting, and initiated reforms to align SDGs with the Medium-Term Expenditure Framework. To lay the foundation for advancing gender-inclusive programming and budgeting, Lesotho undertook a gender audit of four ministries and is planning to pilot gender-responsive budgeting.[91] Ghana included policy objectives in its government-wide Chart of Accounts that are aligned with national development planning, in order to allocate budgets and track the SDGs using an automated budget management system. Rwanda introduced reforms to make public investment policies green by incorporating climate change considerations as a requirement within the investment appraisal process. Meanwhile, Malaysia introduced an Ecological Fiscal Transfers mechanism.[92] Indonesia introduced climate change budget tagging to integrate climate-related commitments into its planning and budget cycle, which also supported the efforts of the Government to launch the green sukuk.

Overall, this points to a range of entry points throughout the budget cycle where connection with sustainable development priorities can be embedded (Figure 8).

Figure 8. Entry points for sustainable development throughout the budget cycle



Source: UNDP, Budgeting for the SDGs: A Modular Handbook (New York, 2022). Available at https://sdgfinance.undp.org/sites/default/files/B4SDGs%20ModularHandbook.pdf.

The forthcoming *Public Finance for SDGs Compendium*[93] explores the different entry points and the range of reform pathways and innovations that countries are using throughout the budget cycle. Based on the experience of ministries of finance and other ministries in 40 countries, the compendium was informed by the 2023 Global Conference on Public Finance for Inclusive and Sustainable Development[94] in Istanbul, Türkiye held in partnership with UNDP, UNICEF, IMF and the OECD. UNDP also organized the Global Dialogue on Public Finance and Tax for Gender Equality in Istanbul, Türkiye in February 2024, which was attended by around 40 countries.[95] These international events generated a shared understanding on the interlinkages between taxes, expenditure, financing and the SDGs.

Box 12. Budget credibility

Public budgets are at the centre of countries' efforts to finance and implement national development priorities that are aligned with the SDGs. It is therefore critical that budgets be credible—meaning that Governments should be able to meet the expenditure and revenue targets set out in their budgets accurately and consistently. The INFF Facility, with UNICEF authoring, was pleased to prepare a guidance note in 2023 that provided practical advice on how to use INFFs to address low budget credibility and how the consideration of budget credibility can strengthen each of the building blocks of INFFs.

INFFs can make a critical contribution to budget credibility because they provide an enabling context and incentives to analyse the underlying causes of low budget credibility, strengthen coherence across the spectrum of public and private policies that impact budget deviations, and enhance deep-dive policy dialogues to address bottlenecks. Credible budgets, on the other hand, strengthen INFFs by providing a means to analyse financing policies and increase the effectiveness of public finance policy reforms for the SDGs by avoiding or resolving key issues (Figure 9).

Figure 9. Budget deviations

Budget deviation	Over-collection/overspending	Under-collection/ underspending
Revenue	Inability to spend on national SDG priorities	Lost-opportunity to spend on national and SDG priorities
Expenditure	Inefficient and wasteful spending	Hamper delivery of crucial services
	lack of effective budgetary controls	Under performance of service delivery and development targets
	Increased deficits and potential debt distress	Execution delays and increase in project costs
		Chronic underfunding and de-prioritization

The guidance note provided an overview of key causes of, and challenges around, low budget credibility. From there, it provided concrete and nuanced policy options for each INFF building block. These were derived from case studies in Ghana, Kenya, Malawi, Namibia, Nepal and Nigeria. A summary table of key interactions between INFF building blocks and budget credibility from the guidance can be found below, with the guidance note itself providing greater policy guidance in line with the INFF guiding principles of building on existing systems and capacities, prioritizing policies and taking a phased approach. The guidance also compiles key resources to assist Governments implementing INFFs to integrate budget credibility into their work.

Among the key policy guidance developed, the note indicates that:

1. Using existing data can provide a stronger foundation for: assessments and diagnostics, including expenditure composition out-turns in financing needs assessments; budget reports and international assessments in financing landscapes; and existing revenue and expenditure deviation data to strengthen risk assessments.

2. Financing strategies should identify key initiatives to resolve budget credibility issues in order to help address identified financing needs and lay out strategic actions towards greater openness and credibility.

3. Governments may draw on existing useful reports to conduct monitoring and review, working towards gradual improvement to reach a 'good enough' level.

4. Similarly, existing intra-governmental coordination mechanisms are crucial to promote budget credibility for the implementation and financing of NDPs. As a result, inclusive, participatory and accountable stakeholder engagement across local authorities, parliaments, civil society and development partners can hold important benefits for both budget reliability and SDG financing.

Leveraging and aligning tax policy for the SDGs

Mobilizing tax revenues has been slow in emerging markets and developing economies and there remains considerable potential for increasing tax revenues.[96] In low-income developing countries and emerging market economies, nearly twice as many countries experienced reduced tax revenues (as a percentage of their GDP) in 2020 compared with during the 1990s.[97] Around 57 low-income countries (LICs) experienced reduced tax revenues in 2020 (as a percentage of their GDP), while 31 LICs had increased their revenues since the 1990s. Similarly, 21 emerging market economies experienced reduced revenues in 2020, while 11 countries increased their revenues.[98]

Domestic revenue mobilization is a crucial priority in many countries' INFFs, which also recognize the distributional impacts of tax policy and the important roles it plays in reducing inequality, building the social contract, and shaping incentives and behaviour relative to the SDGs. Therefore, countries are increasingly focusing on opportunities to increase revenue mobilization and to align their tax policy with sustainable development priorities. The development of institutional capacities for revenue collection is considered a key priority in many countries, including capacity in strengthening tax administration and procedures, as well as capacity in areas such as tax auditing and addressing illicit financial flows.

Ghana initiated its adoption of the INFF approach at the local level. Under the leadership of the National Development Planning Commission and the Ministry of Finance, it started by developing and implementing Integrated Assembly Financing Frameworks (IAFFs) in five assemblies:[99] Sagnarigu Municipal Assembly, Sefwi-Wiawso Municipal Assembly, Kassena Nankana West District Assembly, Kumasi Metropolitan Assembly and the Ketu South Municipal Assembly.

The IAFFs assessed various financing channels to diversify local revenue streams, including own-sourced revenues, central government transfer, development partners' funding, private sector investment, diaspora finance, and philanthropic funds.

Building on initial findings from the IAFFs, a tax gap assessment was undertaken in 2023 through collaboration between the Ghana Statistical Agency and UNDP to uncover the revenue potential of the five local assemblies in support of their local development aspirations. Furthermore, the National Development Planning Commission of Ghana, the Ministry of Local Government and Rural Development and the Ministry of Finance partnered with UNDP to deliver bespoke training sessions on local revenue mobilization for 84 metropolitan, municipal and district assemblies nationwide. Over 600 personnel benefited from these capacity-building efforts, which equipped them to optimize revenue collection and enhance compliance.

An initial evaluation has found that the pilot districts achieved an average 17.5 percent increment in revenue generation. The Government is now considering how to bring the IAFF approach into its planning and budgeting guidelines for all 261 districts across the country.

In addition, an intergovernmental committee has been convened to conduct a comprehensive self-evaluation using the SDG Taxation Framework, with a view to enhancing the alignment of fiscal policy with sustainable development outcomes.

"Domestic revenue mobilization particularly at the district level is an important undertaking that local authorities should prioritise in ensuring adequate financing for their development processes. The Integrated Assembly Financing Frameworks have proven to be appropriate in addressing the gaps, and coming up with strategies for improvement that monitors and consistently track results."

Dr. Kodjo Mensah-Abrampa, Director-General, National Development Planning Commission, Ghana

In Comoros, the government-initiated capacity-building programmes for its tax administration officials, aiming to improve the efficacy of tax policy enforcement. Meanwhile, the country is conducting tax inspections for large companies, a census of individual land taxes, and research on the informal sector to explore untapped tax space and potential areas for revenue enhancement. These measures successfully leveraged an additional $500,000 in revenue between 2022 and 2023. Elsewhere, Armenia used tobacco revenue modelling to inform legislative changes in excise tax on tobacco that are designed to help improve health and well-being. This built on the SDG Taxation Framework,[100] and preparation for similar work on sugar and/or sugary beverages is ongoing. In Nigeria, the MTRS is part of the Financing Strategy,[101] alongside the Medium-Term Expenditure Framework and the Fiscal Federalism Coordination Framework. The financing strategy details steps for operationalizing the INFF in terms of revenue generation, expenditure planning and resource coordination across the state and federal levels, and has facilitated over $30 million in additional revenue collection (see chapter 1). Nigeria is using a similar SDG Taxation Framework approach to identify corporate income tax and VAT enhancements that can help address compliance.

Tax expenditure through incentives, tax holidays, tax breaks and other channels through which revenue is foregone can have sizeable impacts on fiscal space. While they are often established for developmental purposes—to attract investment in priority sectors or regions, or to lower the cost of important products or services—their off-budget nature means they can be difficult to manage without robust systems in place. A growing number of countries are establishing processes to monitor the volumes of revenue foregone, and to understand the outcomes that they are contributing towards.

In Kyrgyzstan, tax incentives have historically accounted for around 5 percent of GDP ($400 million in 2020). In 2022, the Government introduced a new tax code to assess the effectiveness of these incentives. An initial analysis by the Ministry of Economy and Commerce found that the majority of tax incentives over 2016–2020 contributed towards policy priorities, including decent work and poverty reduction. To enhance monitoring and to improve the contribution of incentives towards policy outcomes, the new tax code requires an annual assessment of these incentives to monitor their relevance to the country's development priorities.[102]

The Kyrgyz example highlights the dual roles of tax policy as a mobilizer of public funds and a tool for creating incentives and disincentives that can alter behaviour in powerful ways either for or against sustainable development policy priorities.

With this dual capability in mind, the General Tax Authority, Mongolia's national tax administration, has institutionalized a Gender Equality Committee with senior representation from different departments that has developed a budgeted Gender Action Plan spelling out initiatives to better align taxpayer services, policies and programmes with gender equality. Examples include the ongoing redesign of the Taxpayer Education Programme to better incorporate the needs of current and potential women taxpayers, and efforts to ensure sex-disaggregation of information held in the taxpayer registry and information systems in order to generate better compliance data. The General Tax Authority has also partnered with the Ministry of Finance to undertake research into the gender equality implications of different tax laws and policies, with a focus on personal income tax, to inform the Government's ongoing tax reforms. In this way, the General Tax Authority is drawing on the Gender Equality Seal, which certifies public institutions according to their planning and management capacities, public policies, and other elements of their structure and approach towards gender equality.[103]

Debt for sustainable development

Debt is one of the most commonly used financing instruments. It offers the potential to address fiscal gaps and finance long-term investments in sustainable development priorities, if leveraged sustainability. Refinancing is also increasingly popular.

Due to rising interest rates and increasing fiscal gaps experienced globally in the last couple of years, debt levels, costs and sustainability have become a cause of concern for many countries. More than half of all LDCs and other LICs are now at high risk of, or in, debt distress; more than 50 developing countries in total are facing severe debt challenges.[104]

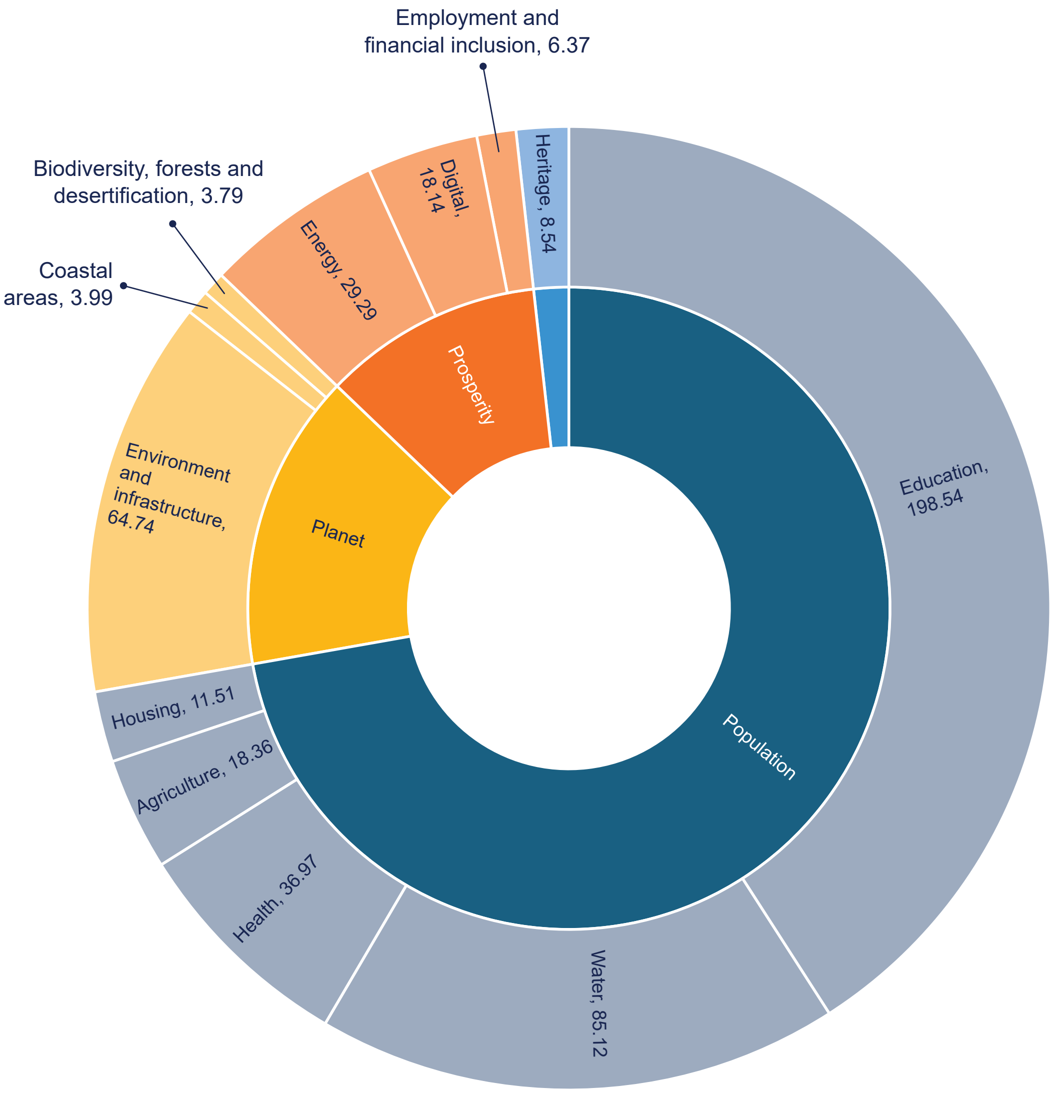
Therefore, countries are exploring various debt financing or refinancing options within INFFs while developing strategies to maintain sovereign debt at sustainable levels, tapping into new investor pools and enhancing the SDG impact, transparency and accountability related to the use of proceeds.

Innovation in debt financing was identified as an important resource mobilization priority for **Benin**, which is using the INFF approach to address the financing gap for its NDP and NDC. The country has formulated a comprehensive financing strategy under the guidance of a high-level INFF oversight committee, approved by presidential decree and chaired by the Minister of State for Development and Coordination of Government Action. In 2021, it became the first country in Africa and the first LDC to issue an SDG bond.[105] The €500 million SDG Eurobond had a maturity period of 12.5 years and a coupon rate of 4.95 percent. The primary objective of this bond issuance was to fund social and environmental projects.

To ensure effective financing across the four pillars of the 2018–2025 NDP and the SDGs, a comprehensive SDG bond framework was developed, building on the previous SDG costing work. An independent review conducted by Moody's resulted in an improved financial rating for Benin, which assured investors. Moreover, a dedicated committee was established to oversee, monitor and report on project progress and validate the eligibility of projects within the 12 pre-defined expenditure categories. As a result, a transparent resource allocation map that encompasses the 4 pillars and 12 expenditure categories is now accessible to the public.[106]

A total of 72 percent of the proceeds of Benin's SDG bond issuance were allocated towards investments in social sectors (Figure 10). The largest portions were invested in expanding educational services and improving access to drinking water and wastewater treatment.

Figure 10. Allocation of Benin's SDG bond



Source: Ministry of Finance, Benin.[107]

Note: Figures are in € millions.

Since the inaugural SDG bond issuance in 2021, shifts in the regional landscape and the escalating borrowing rates for green and social initiatives demand more innovative approaches to safeguard fiscal space from the burden of debt costs. In 2023, Benin successfully secured an additional €350 million over a 12-year term at an interest rate of 6 percent to finance key ESG projects in the country.[108] The loan is backed by a first-loss guarantee from the African Development Fund (the concessional financing arm of the African Development Bank), marking a milestone as the first loan of its kind in Africa to receive such financial security. Furthermore, the African Trade Insurance Agency will provide an insurance policy to cover potential second-losses, ensuring further protection and stability for the investment.

Moving ahead, the Government has plans to expand its range of debt instruments and explore the issuance of blue and green bonds within its investment portfolio, in line with its public debt management objectives. Projects are currently being developed in this area, with the Government aiming to take the lead in establishing a taxonomy for green bond issuance in the West African Economic and Monetary Union region.[109]

The experience with the SDG bond and establishing structures to monitor the use of proceeds in line with the SDGs is also inspiring change across the wider financial ecosystem. In December 2022, the Ministry of Finance led the development of a comprehensive SDG budgeting roadmap that includes SDG budget tagging and measures for a more comprehensive assessment of the impact of budget allocations on the SDGs. Its implementation is ongoing at the time of writing.

"Although the 2021 SDG bond issuance was a first for Benin and on the African continent, we intend more than ever to maintain this momentum, with a view to achieving the SDG targets by 2030, by deepening our SDG financing strategy and continuing our efforts to innovate in finance."

Romuald Wadagni, State Minister, Ministry of Economy and Finance, in charge of cooperation, Benin[110]

A total of 14 countries are currently implementing reforms and policies related to debt and the development and issuance of sustainable debt instruments. Meanwhile, 35 others have prioritized thematic bond issuance, debt swaps or other changes to debt management within their INFF.

INFFs enable countries to situate their debt policies within the broader financing policy and to enhance the SDG impact of the debt proceeds, while taking measures to strengthen the macrofiscal conditions. In Comoros, the INFF has enabled the Government to mobilize $1.5 million in funds from the African Development Bank for a project supporting public debt management for the period 2024–2026. This project aims to increase the Government's borrowing capacity for priority investments of the Comoros Emerging Plan (also known as the PCE 2030).

There are also a growing number of examples of countries either building thematic bond issuances on the foundations of reforms in other policy areas such as SDG budgeting (e.g. Indonesia—see below) or these issuances leading to policies and reforms in other areas such as taxonomy development (e.g. Cabo Verde developed a blue taxonomy in preparation for the blue bond regulation—see chapter 3), or where the systems established for managing thematic bonds have subsequently catalysed change in other parts of the financial ecosystem (e.g. Benin—see above).

Many other countries are developing sustainable bond frameworks at the national and subnational levels to access the thematic bond market and have mobilized financing through thematic bonds and other instruments such as debt swaps. Indonesia, for example, started accessing the thematic bond market from 2018 with the issuance of the world's first sovereign green sukuk. Since implementing its INFF in 2019 and placing innovation at the heart of the INFF process, Indonesia has been experimenting with the different types of thematic instruments. It has since issued a green bond and an SDG bond and, in 2023, publicly listed a blue bond, raising over $10 billion in proceeds (see chapter 3).

In Pakistan, the Government has developed an SDG Bond Framework and a Nature Performance Bond Framework with the support of UNDP. Pakistan is also exploring the innovative use of debt-for-nature and debt-for-development swap instruments targeting the Paris Club and Gulf Cooperation Council countries, as well as China, to reduce the country's external debt burden and create resource space for investment in sustainable development.

In Uzbekistan, the Government issued two thematic bonds totalling $585 million. In Cambodia, the Government issued the country's first sovereign bond in 2023, in local currency, following the drafting of the policy framework for developing government securities. The Government plans to build on this experience with further bond issuances of $200 million. In Cabo Verde, the stock exchange launched the Blu-X platform in 2021, which has hosted six sustainable bond issuances totalling over €35 million to date (see chapter 4). In 2023, the Government agreed a $153 million debt-for-nature swap with Portugal. In Gabon, the Government has secured a $500 million debt-for-nature swap with The Nature Conservancy and unlocked $163 million for investment in marine conservation.

In Uruguay, the Government issued an innovative sovereign sustainability-linked bond (SLB) worth $1.5 billion in 2022. The bond had a step-up/step-down structure, whereby the interest rate depends on the country reaching specific targets linked to quantitative goals set for 2025 in Uruguay's NDC to the Paris Agreement. It was the first issuer to have incorporated a step-down structure. The issuance was highly appraised as innovative by practitioners and received the Latin American Bond of 2022 award from the International Financing Review. Uruguay also issued a $700 million SLB in 2023 and is building on this experience and other innovations in financing to develop its INFF.

These examples and emerging results show a promising trend of countries aligning the use of proceeds with the SDGs and indicate growing interest in issuing thematic bonds rather than conventional bonds. Thematic bonds present an opportunity to enhance market access and inclusion for LICs and middle-income countries (MICs). Access was relatively limited in these countries in the past, as evidenced by the small number of issuers from these countries in the thematic debt capital markets.[111]

Sovereign SDG bonds in particular—defined as a subset of thematic bonds that include reference to alignment with the SDGs within national financing frameworks—can help Governments finance their sustainable development needs. Such bonds are becoming increasingly popular with Governments and are prioritized in a number of financing strategies. The Global Investors for Sustainable Development Alliance, alongside DESA and UNDP, has developed guidance[112] on these instruments for issuers and investors.[113]

Demand is increasing among investors to invest in thematic debt issuances from developing and emerging markets, with asset managers seeking to accelerate thematic bond market development due to the sustainability impact that can be achieved through such issuances.[114]

Investment decisions are impacted by the creditworthiness of the issuer, which is generally represented by their credit rating. It will be important for credit rating agencies to develop more-refined and longer-term approaches that account for the unique risks and characteristics associated with SDG-oriented investments, in order to provide more-accurate insights for investors and help guide their decision-making.[115]

Nevertheless, debt sustainability continues to be a key concern. The United Nations Secretary-General launched the SDG Stimulus in 2023, which emphasizes the urgent need to tackle the high cost of debt and the risk of debt distress, scale up long-term FfD and expand contingency financing to countries in need.[116] The SDG Stimulus calls on Governments to align all financing flows with the SDGs through national frameworks such as INFFs.

INFFs can help identify and manage some of the risks inherent in debt management. Key risks include the potential for debt distress, the challenges of engaging with private creditors in the event of debt distress, and the risk of insufficient safeguards to prevent harm to people living in areas where environmental projects take place. INFFs situate debt management within the broader financing policy framework and landscape and can provide a platform for dialogue on managing risks within these wider trends and a forward-looking outlook. Many countries are enhancing SDG impact by using debt proceeds for sustainable projects as specified in the bond frameworks and utilizing 'do no significant harm' principles to ensure that the projects have a net-positive contribution towards the SDGs. Risks and challenges related to debt issuance exist in any context and it is inevitable that countries will continue using debt as one of the primary financing instruments. The broader outlook and approach of an INFF can help Governments to manage these risks.

Insurance and risk financing for the SDGs

Climate change, disasters and other shocks undermine development progress and exploit entrenched vulnerabilities. Disasters displaced 23.7 million people in 2021 and economic losses from disasters globally reached $275 billion in 2022. The devastating impacts of COVID-19 have highlighted the fragility of country and community resilience. Ongoing poverty and inequality, exacerbated by technological disruption, and environmental degradation leave many people at risk of being left behind. With an increasing insurance gap—97 percent of people in sub-Saharan Africa lack coverage,[117] and accelerating impacts from climate change may push 100 million people into poverty in sub-Saharan Africa alone—bolstering resilience and protecting lives and livelihoods from these interconnected crises is a crucial priority.

Against this backdrop, many countries have started to advance solutions to integrate insurance into development and enhance sovereign risk financing, nature capital protection, community resilience and inclusion, as well as to promote insurance and investment market development.

Accra, the capital of Ghana, for example, is highly vulnerable to hazards and shocks driven largely by climate change, notably frequent flooding. The city has experienced 17 major events in the past five decades, out of the 30 that have affected Ghana as a whole. With its population projected to double by 2050, rapid urbanization is exacerbating vulnerability, especially in urban low-income areas. The majority of residents in Accra lack financial safety nets, with 70 percent uninsured and 42 percent without access to financial services, amplifying the impact of such shocks.[118]

Ghana has developed a contingency plan for disaster risk finance, supported by the UNDP Insurance & Risk Finance Facility (IRFF).[119] Guided by the plan, the Ministry of Finance and the National Disaster Management Organisation (NADMO) are working in partnership with global insurance leaders, Swiss Re and Allianz, to build the financial resilience of low-income communities in the Greater Accra Region and enable them to re-establish their economic activities after a severe flood through a parametric insurance product, while enhancing the response capacity of NADMO. The solution is expected to benefit an estimated 5.67 million individuals in the region and have a long-term impact on the financial resilience of urban Ghanaians. Expansion to other coastal cities is being considered.

To enhance capacity in the area of insurance, the National Insurance Commission is collaborating with the Ghana Insurance College and the IRFF to roll out a certified Inclusive Insurance Training Programme and develop an inclusive insurance regulatory roadmap. Ghana has also benefited from the Global Actuarial Initiative partnership with Milliman to enhance actuarial skills and data-analysis capacities and improve local risk modelling.

In Pakistan, flooding in 2022 caused over $30 billion in economic losses and affected 33 million people, with a significant portion of the Indus Valley submerged in floodwaters. Public assets are not uniformly covered by insurance and Pakistan's insurance penetration stands at 0.9 percent (non-life at 0.29 percent) of GDP. This means the weight of financial risk sits heavily on the shoulders of Pakistani families, businesses and institutions. To tackle this challenge, Pakistan is currently implementing a Resilient Recovery, Rehabilitation, and Reconstruction Framework (4RF), which emphasizes the need to not only rebuild, but also enhance the nation's resilience, with a focus on insurance and risk financing as two of the strategic priorities.

Other countries such as Mexico (see case study) and the United Republic of Tanzania (see chapter 3) are advancing their insurance and risk finance solutions to build resilience and protect lives and livelihoods. INFFs can provide a platform to consider risk across sustainable development priorities and the financing landscape, and to shape and advance solutions that deploy innovative risk finance instruments and that mainstream risk consideration into the design of financing policies.

Box 13. World Economic Forum Resilience Consortium

With external shocks increasing in frequency and severity, resilience is an integral part of the sustainable development journey for countries and public and private sector institutions. The Resilience Consortium was launched in 2022 by the World Economic Forum in cooperation with McKinsey & Company to bring together Governments, the private sector and international organisations to accelerate collective action across key resilience drivers for the global economy.

The Consortium aims to improve anticipation, preparedness and response to future disruptions through the development of resilience frameworks for public and private sector organizations that can help them achieve more sustainable, more inclusive growth through shared understanding of the drivers of resilience. This requires prioritizing a corresponding agenda towards complementary public and private sector approaches and sharing best practices to strengthen partnerships across public and private action towards managing risk and promoting resilience. Neither private nor public resources are, in themselves, sufficient to finance sustainable and inclusive growth—both are necessary to drive the resilience and sustainability agenda across countries and institutions.

With many countries putting investment in resilience at the heart of their INFF, the Resilience Consortium, in collaboration with UNDP, is scaling up engagement at the country level. By bringing together Governments, local stakeholders and the Consortium's private sector membership, the aim is to facilitate dialogue and shape policy solutions that can be delivered through the INFF and unlock private investment in resilience priorities at the country level.

Box 14. IMF Global Public Finance Partnership (GPFP)

The GPFP is a global programme that focuses on supporting emerging market and developing countries—particularly low-income developing countries (LIDCs) and fragile and conflict-affected states—to build strong fiscal policy and management institutions that are fit for purpose in addressing the challenges ahead.[120] The key topics and themes of the GPFP reflect the needs of emerging market and developing country members to build fiscal institutions and focus on designing and implementing strong revenue mobilization policies, well-functioning revenue administrations, policies that are focused on 'spending well', and sound PFM. The GPFP's capacity development delivery also integrates key cross-cutting priority themes—climate change, gender and inclusion, and GovTech—that permeate all areas of public finance.

Box 15. World Bank: Reimagining public financial management

Recognizing that PFM reforms have had limited success in improving outcomes, and that emerging development challenges have put pressure on public finances (e.g. fiscal squeeze, climate change, and growing inequalities), in 2023 the World Bank initiated a consultation process on rethinking PFM.[121] The main premise of the consultations is that while PFM reforms have improved systems and processes, their impact on development outcomes has remained elusive. The initiative will lead to the World Bank updating its *Public Expenditure Management Handbook* for the first time in more than 25 years.

An integrated approach to tax, expenditure and debt for the SDGs

The country examples presented above focus on the tax, debt and expenditure aspects of the budget, and demonstrate how countries are embedding sustainability across PFM.

From the outcome perspective, it is well recognized that each element of public finance has an important influence on sustainable development progress. Tax systems may be more or less progressive and create incentives for investment that either contribute to or undermine sustainable development objectives. The way the budget is spent and invested, and the way debt is raised and channelled, are important drivers of progress.

Yet across many contexts there are trade-offs in public policy that contradict each other. For example, the development of carbon tax systems may coincide with the provision of subsidies that are harmful for the climate and biodiversity. Regressive taxation and high reliance on indirect taxation may sit alongside costly income-support programmes. Gender-responsive budgeting may invest in women's economic empowerment while tax incentives favour industries in which men are more active, leaving women facing a disproportionate tax burden. Such contradictions hinder achievement of the SDGs.

Beyond integrating sustainable development into each element of public finance individually, the next step must be an integrated approach across public finance as a whole. This would move beyond a gender-responsive budget/gender-blind tax policy set-up, for example, to the integration of gender equality into both budget and tax policy. In this way, Governments would be able to promote gender equality positively through public spending and investment while configuring tax policies to reinforce these objectives, ensuring for example that women do not face a disproportionate tax burden.

To date, few initiatives have focused on integrating tax and public spending to resolve trade-offs and on building synergies among different SDG dimensions (such as social—including gender, climate and nature, economy, peace, and partnerships). A recent report by Caren Grown and Giulia Mascagni at Brookings recommends a shift in the approach taken to gender equality in tax and fiscal policy. Instead of focusing only on biases in the tax system, the report suggests looking at the bigger picture of fiscal policy. This means considering how different policies, not just taxes, can impact gender equality.[122] Similarly, the Commitment to Equity initiative's tax and benefit incidence analysis evaluates policy issues related to reducing inequality and poverty.[123] However, additional work is required to better understand and address policy trade-offs between tax, expenditure and FfD; this will be an important priority for the future.

Finding a balance between simplicity in tax policy and sophistication of the SDGs and the incentive structure required to promote outcomes such as gender equality, building climate and crisis resilience, and strengthening biodiversity conservation can be challenging. A requirement to enhance tax revenues and balance this with issues such as equitable collections alongside tax policy that penalizes/incentivizes brown or green investments may appear to be trade-offs. However, these policies can be mutually reinforcing when increased revenues flow towards social sector investments—as is the case in, for example, Benin.

Different types of tools and approaches can help identify trade-offs and synergies. These include fiscal incidence analysis (a methodology introduced by Commitment to Equity to review how equalizing and effective government taxes and spending are in reducing inequality and poverty), micro-simulation modelling such as a social accounting matrix, and integrated assessment models.[124]

These tools and approaches have been generally supported through academic research, yet there are some examples where both tax and spending policies and their impacts on, for example, gender equality are being assessed and presented in government budget documents. Australia's Women's Budget Statement is one such example.[125]

Moving forward, INFFs can provide a platform for such integrated public finance policymaking and a number of countries are moving in this direction. Among the 13 Governments with an operational financing strategy, for example, six have prioritized climate-change-related reforms in all three elements of public finance (tax, debt and expenditure). Bringing these together in an integrated manner, and actively managing the trade-offs and synergies between them, can further reinforce and accelerate sustainable development priorities.

Recommendations for FfD4

Recommendations for the FfD4 outcome:

1. *Prioritize development-oriented public finance systems that embed the SDGs and social, climate and nature priorities within the systems and policies for revenue mobilization and expenditure.*

2. *Promote a coherent approach to sustainable development outcomes, including climate change and gender equality, across spending, tax and debt policies, using INFFs as a platform for an integrated approach to public finance.*

Recommendations for Governments:

1. *Embed development outcomes within revenue, expenditure and financing systems and policies, and use the INFF as a platform to address trade-offs and synergies between revenue, expenditure and financing policies.*

2. *Enhance fiscal transparency around SDG budget and spending data to enhance focus on improving efficiency in the use of public finances for accelerating the SDGs.*

3. *Consider how to mainstream risk management across financing policies, including through the development of risk financing mechanisms such as contingency funds, insurance and catastrophe bonds, to create buffers for crisis response.*

Recommendations for the international community:

1. *Embed a stronger focus on national sustainable development priorities in support of, and technical assistance for, PFM reform and align programming with country-led financing strategies and INFFs.*

Mexico case study: Sustainable finance mobilization strategy

Mexico faces the dual challenge of climate change and socio-economic disparities, with rising temperatures impacting livelihoods and exacerbating poverty. The country's vulnerability to climate change is heightened by its demographics and geography, with significant infrastructure and natural resources risks. Addressing these challenges requires considering socio-economic factors and fostering sustainable economic development.

In this context, the Government of Mexico prioritizes an integrated approach to financing sustainable development. The Government aims to mobilize substantial funding for sustainable initiatives, leveraging public and private sources and promoting transparency and innovation for a more inclusive and environmentally responsible economy. The Sustainable Financing Mobilization Strategy (EMFS in Spanish),[126] launched by the Ministry of Finance and Public Credit in September 2023, has the potential to mobilize up to MXN 15 trillion from 2023 to 2030 through voluntarily adopted objectives and lines of work by the public, private and social sectors, closing the financing gap to achieve the SDGs in Mexico.

The EMFS includes three specific objectives:

1. Access to financing: Creating a conducive environment for sustainability-focused activities and projects to access low-cost financing.

2. Information disclosure: Ensuring the disclosure and transparency of strategic information on sustainable finance to facilitate investment decision-making and capital flow redirection.

3. Innovative financing instruments: Promoting the creation and development of new instruments to diversify sustainable financing sources and reduce investment risks.

Cross-cutting actions ensure compliance with the EMFS, including capacity-building, gender perspective integration, and monitoring strategies.

Mexico is creating comprehensive financial solutions aimed at enhancing budget and fiscal strategies, enhancing governance in the financial system, and designing policies, regulations and instruments to increase the resilience of the financial sector against environmental and climate-related risks. Starting with the alignment of the federal budget with the SDGs in 2018, the Mexican Government issued the first sovereign SDG bond in the world in 2020 with an innovative strategy that capitalized on the established connection between the federal budget and the SDGs. The SDG Bond Framework establishes a set of criteria aimed at maximizing impact on sustainable development. Eligible expenditures from the Federal Budget must contribute directly to at least one of the eligible SDG categories established in the Framework. Additionally, eligible expenditures are screened based on exclusion criteria to prevent negative spillovers. Finally, this approach incorporates a geospatial criterion to allocate eligible social expenditures to the most marginalized municipalities. To date, the SDG bond has mobilized \$10 billion via 10 issuances on international markets.[127]

Additionally, in 2023, the Ministry of Finance introduced Mexico's Sustainable Taxonomy,[128] which is designed to encourage investment in economic activities that diminish socio-economic disparities and safeguard the environment in the country. Mexico's Sustainable Taxonomy serves as a financial policy tool to encourage investments in economic ventures that mitigate socio-economic gaps and environmental impact within the nation. This initiative is globally distinctive for incorporating social goals into its framework, with a primary focus on promoting gender equality.

At the same time, the Ministry of Finance of Mexico, in collaboration with a consortium of insurance companies,[129] has successfully developed and piloted a sovereign parametric insurance solution with support from the UNDP IRFF and the Insurance Development Forum.[130] The pilot covers over 10,000 smallholder farmers against floods and droughts.[131] The coverage was triggered twice during the pilot test, and over 1,400 producers received a direct payment to make their livelihoods and communities more resilient against climate change. Mexico is also piloting projects focused on offering comprehensive solutions for access to, and use of, financial services for micro and small businesses led by women and for small and medium-sized digital businesses.[132]

Mexico's sustainable finance mobilization strategy constitutes an integrated approach to financing sustainable development, thus comprising the financing strategy stage of an INFF. Previously, a Development Finance Assessment (DFA) was carried out,[133] which contributed to decision-making regarding the delivery of the EMFS. At the subnational level, Nuevo León was the first state to conduct a DFA, setting out 10 recommendations for the use of the INFF approach at the subnational level in complement to the national Sustainable Finance Mobilization Strategy.[134] Also at the subnational level, at least 12 states are advancing the development of SDG tagging of local budgets, and others are incorporating a gender-based approach in their budgeting processes with UNDP support. These processes are enablers for the development of financial assessments, as well as innovative financing strategies and instruments such as SDG bonds.

Although there has been considerable advancement, further endeavours are necessary to encourage solutions rooted in nature, science and technology, fostering innovation and driving the Mexican economy towards a more robust, inclusive and sustainable future.

Chapter 3

Private finance for the SDGs

Headline messages

- Private finance is not flowing to sustainable development investments at the scale and in the locations and investment areas needed to achieve the SDGs. Various factors are at play, including instability, higher investment risks—both real and perceived–as well as an unconducive investment environment and a lack of bankable pipeline of projects to attract investments. Addressing this challenge requires collaboration across government, the private sector and civil society to bring about reformative changes to enable the flow of sustainable finance.

- Countries are using INFFs as a platform to help channel finance towards national priorities and to shape and accelerate private financing policies and reforms in order to unlock and align financing from the private sector with national sustainable development priorities.

- Countries are using INFFs to hardwire sustainability into the fundamental development of the financial sector, catalyse innovation in the financing landscape, identify investment opportunities and project pipelines addressing SDG priorities, and channel funds from investors to impact-informed investment projects.

- INFFs can promote a shift in business practices for SDG performance, long-term business success, and integrity of impact claims, by building capacity and putting in place the incentives for this shift across the private and public sectors.

- INFFs provide a platform to ensure sustainable finance policy and regulation are country-led while also being interoperable with other markets, with regard to sustainable finance taxonomies, disclosure requirements and related policies.

- Public incentives serve as crucial catalysts, unlocking private investments by mitigating risks, providing financial support and stimulating market creation. Through targeted incentives and investments aligned with policy objectives, Governments enhance project viability and facilitate PPP that leverage private sector expertise and capital in order to efficiently deliver infrastructure and essential services.

- Global initiatives such as the European Union's Global Gateway, the G7 Partnership for Global Infrastructure and Investment, and the Belt and Road Initiative are seeking to scale up the supply of finance. INFFs present an opportunity to align with country-led priorities for investment at the national level.

- International financial institutions (IFIs), development finance institutions (DFIs) and international partners have an important role to play in leveraging private capital. INFFs provide the country-led framework that country platforms for enhanced MDB coordination to respond to and support.

- Embedding the SDGs into the investment policies and mandates of the private sector, including those of global institutional investors, should be accelerated to scale the flow of private financing towards achieving the SDGs.

The private sector plays a decisive role in progress towards the 2030 Agenda. Private business activity and investments are key drivers of growth at the country level through creating employment, driving industry and innovation, and contributing to domestic public revenue.

Businesses are stepping up efforts to adopt sustainable and inclusive practices and enhance their contribution to the SDGs, yet progress remains uneven across contexts and there is still a long way to go for businesses to transition at scale.

The potential of the domestic private sector to contribute to sustainable development progress can be enhanced by implementing a financial ecosystem, incentives and capacities that promote sustainable and inclusive investment and growth, and by adopting the sustainability principles and practices at the core of the business and investment decision-making process.

At the global level, institutional investors hold U$100 trillion in assets under management,[135] which could drastically reduce the SDG financing gap if a higher proportion was directed towards SDG priorities. However, today only about 6 percent of the assets held by institutional investors is invested in developing markets,[136] even without considering the SDG alignment of their investments.

Many institutional investors have not mainstreamed sustainability impact into their investment decision-making and management practices, thus inhibiting efficiency, effectiveness and authenticity in SDG performance. Investment policies may be inflexible to adapt to emerging market characteristics. Investment risks, both real and perceived, and the commensurate return required for bearing such risks often mean investment into developing markets is avoided.

There is limited engagement between Governments and market participants to overcome these investment hurdles.[137] A lack of investable projects, limited awareness of investment opportunities and/or underdevelopment of mechanisms to share investment risks hinder the flow of capital. This is compounded by underlying issues such as lack of infrastructure, small consumer base, lack of market information, political instability and security concerns. Systems and processes to monitor the SDG impact of the investments are often nascent. Addressing these constraints is an important priority for unlocking financing for sustainable development priorities.

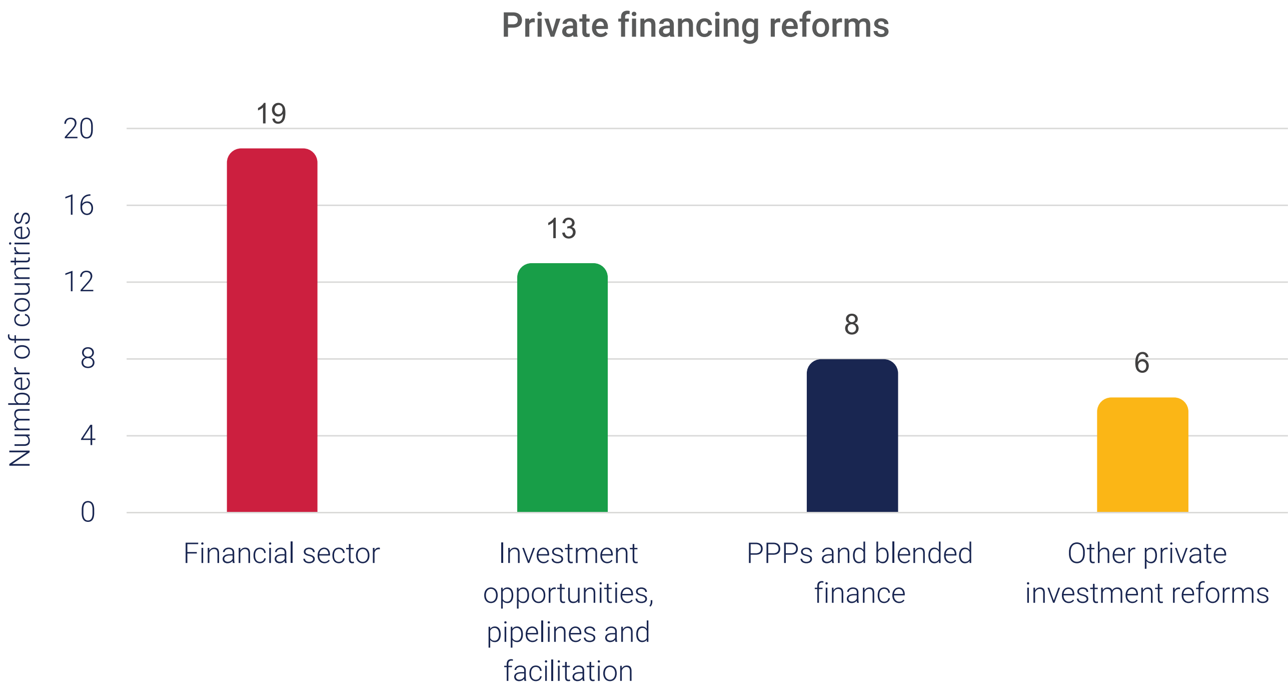
The international community is implementing various large-scale initiatives to drive investment and accelerate achievement of the SDGs in developing countries. For example, the Global Gateway—the European Union's contribution to narrowing the global investment gap—will mobilize up to €300 billion of investments between 2021 and 2027 into sustainable development priorities of the partner countries.[138] The G7 Partnership for Global Infrastructure and Investment aims to mobilize up to $600 billion by 2027 to narrow the infrastructure investment gap.[139] China's Belt and Road Initiative seeks to enhance global connectivity and cooperation, with its investment scale expected to reach $1.6 trillion in the initiative's countries over the next 10 years.[140]

To accelerate private financing flows to developing countries, a sustainable finance framework with sustainable finance taxonomies, disclosures and reporting standards and sustainable financing instruments supported by a conducive investment environment needs to be put in place. These conditions will help ensure the effectiveness, transparency, accountability and SDG impact of these investments.

To unlock the significant potential on both the demand and supply sides, Governments are using INFFs as a platform to engage domestic and international investors, promote SDG-aligned investment opportunities and create an enabling environment conducive to sustainable investment through a comprehensive set of financing policies and reforms. INFFs are being used to enhance the ecosystem within which private finance is invested through the identification and delivery of key financing policy changes and reforms. To date, 23 countries have implemented, or are currently delivering, reforms designed to leverage and align private capital with the SDGs through reforms to the financial sector, investment environment and investment promotion, using PPP and blended financing, as well as non-commercial financing in areas such as remittances, faith-based financing and philanthropy (see Figure 11).

An analysis of these reforms and financing policies, and across financing strategies, shows that countries are prioritizing three key areas: embedding the SDGs into the foundations of financial markets, promoting SDG investment pipelines and using PPP, blended and other innovative financing mechanisms.

Figure 11. Private and financial sector reforms being delivered within INFFs



Source: 2023 INFF survey.

Note: The data show the number of countries implementing reforms in each area.

These reforms and policies represent steps towards a more sustainable financing ecosystem at the country level. They complement efforts to reform the international financial architecture and are conducive to maximizing net-positive impacts on the SDGs.[141] Only when sustainability is embedded into both the local and international financial architecture will the financial system as a whole be sustainable. And only when the trade-offs, spillovers and complementarities between and within public and private financing policies are considered will financing policies be effective and integrated.

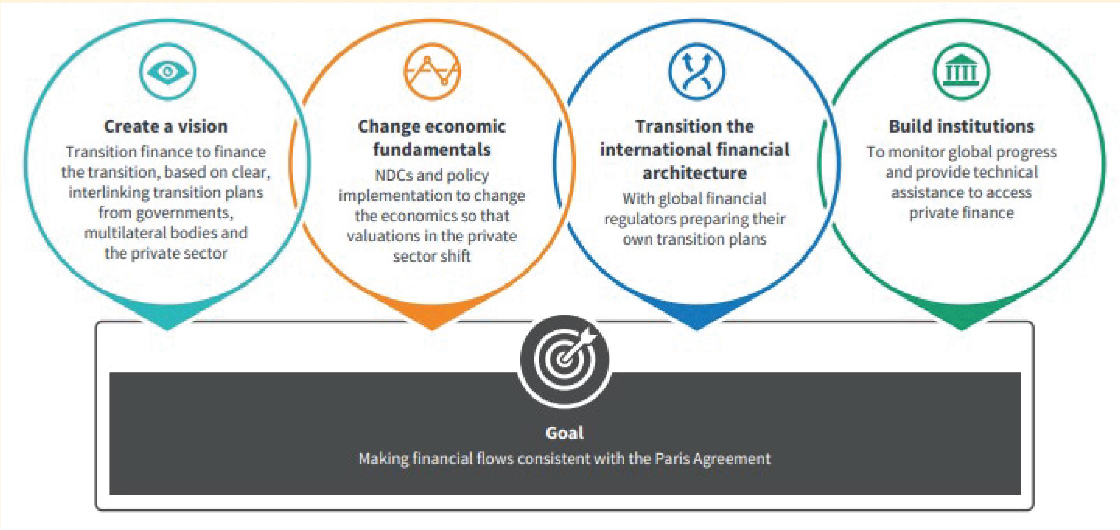
Box 16. Aviva: Tipping point for climate finance

In November 2023, Aviva Investors published a white paper called *The Tipping Point for Climate Finance: Making Financial Flows Consistent with the Paris Agreement*.[142]

The paper identified a number of obstacles related to financing, including a lack of collective political will to implement the Paris Agreement and a lack of delivery and accountability mechanisms. It recommends a transition-plan-led response to making financial flows consistent with the goals of the Paris Agreement, as shown in Figure 12.

The paper also recognizes the role of Governments in shaping markets and fixing market failures. It recommends that Governments develop and adopt their own transition plans and mobilize finance for their implementation. The transition plans would need to be supported by the national level financing strategy, such as the INFF.

Figure 12. The tipping points for climate finance: Aligning the whole of finance to global goals



Source: Aviva Investors, November 2023.

Transition plans signal the Government's investment priorities to the private sector and the financial sector, hence enabling these sectors to develop their own institutional transition plans and align their corporate operations with these priorities. As the international financial architecture is the intermediary for capital, it plays a catalytic role in the process of financing net-zero transitions. Lastly, a dedicated global institution to institutionalize the monitoring and accountability of transition plan implementation is recommended. With all these four elements in place, transition plans can be financed, and achieving the net-zero transition will be more likely. This process is not only about implementing sustainable financing architecture, but also represents a paradigm shift needed for all stakeholders involved.

> "Countries with the best frameworks will attract investment, so the strategic imperative and opportunity of developing the best financing plan is huge."
>
> Aviva Investors

Hardwiring the SDGs into the foundations of financial markets

The financial sector is the intermediary between where capital is available and where it is needed. It should play a critical role in channelling financing towards the areas where there are the greatest opportunities for advancing the SDGs, and into economic activities that have significant net-positive SDG impacts.

For many years, Governments have undertaken reforms to develop the financial sector and enhance the flow of private capital. Yet these efforts have typically focused on the financial impacts of policies, such as increasing foreign direct and portfolio investment flows in monetary terms, with little regard for the SDG impact of the financing flows. The SDG impacts of these investments can be significant, but without awareness and holistic impact analysis, it is not possible to ascertain which efforts make an effective contribution to the SDGs, nor the opportunities to enhance them further.

However, there have been many noteworthy advances in embedding sustainability into the financial and private sectors in the last five years. This includes the adoption of green and sustainable finance taxonomies and sustainability disclosure and reporting standards, increased awareness of the need for SDG-aligned management practices as well as the adoption of the 'from ESG to SDG impact' approach.

The European Union taxonomy for sustainable activities, for example, was adopted in 2020, the Association of Southeast Asian Nations taxonomy in 2021 and a Common Framework of Sustainable Finance Taxonomies for Latin America and the Caribbean in 2023.[143] Over 30 countries have adopted taxonomies in the last three years and 20 more countries are currently in the process of developing them.

On the disclosure and reporting side, the International Sustainability Standards Board (ISSB) has issued its inaugural standards—IFRS S1 (for sustainability-related risks and opportunities) and IFRS S2 (for specific climate-related risks and opportunities) to create a common language for disclosing the effect of climate-related risks and opportunities on a company's prospects in 2023. The European Union adopted the Sustainable Finance Disclosures Regulation in 2021 for financial companies and the Corporate Sustainability Reporting Directive in 2023 for non-financial companies around disclosing the alignment of the financial products and business operations with the SDGs.

Private sector considerations of sustainability often focus on ESG risk on the company's business operations, without holistic consideration of how businesses or investments impact the diverse and broad stakeholders within society. The OECD-UNDP Impact Standards for Financing Sustainable Development and the UNDP SDG Impact Standards were launched in 2021 to guide companies, investors, corporate bond issuers, development partners, IFIs and donors in adopting holistic impact management practices within their business strategies, management practices and decision-making processes, to redefine business-as-usual.

Integrating an impact management and measurement framework has strategic and operational benefits. Strategically, it signals a commitment to sustainability, demonstrates accountability and increases credibility with shareholders and key stakeholders. IMM helps identify priorities and set targets in line with mandates plus strategic policy goals, including social and environmental safeguards, to avoid adverse impacts and promote positive ones. Operationally, IMM helps optimize resource allocation, select transactions and ensure that impact data inform decision-making. At the portfolio level, it builds resilience and supports diversification based on expected risk-adjusted financial and impact returns across financial instruments, such as guarantees, equity and thematic bonds. In doing so, organizations can be more strategic in allocating resources aligned with impact, take corrective action, reduce transaction costs, facilitate aggregation of assets and mobilize higher volumes of private capital.

In 2023, the International Organization for Standardization (ISO) and UNDP signed a landmark Statement of Intent,[144] signalling a commitment to enhancing international standards that advance sustainability actions by both the public and private sectors, and the intention to collaborate on an international standard for the SDGs based on UNDP's SDG Impact Standards and the relevant ISO standards. These recent developments demonstrate an increase in efforts to embed sustainability into the financial and private sector.

Governments are using INFFs to catalyse and accelerate the incorporation of sustainability into financial markets' foundations at the national level. Among the 13 operational financing strategies examined in chapter 1, the financial sector is the focus of over 40 percent of the private finance reforms prioritized. Common priorities relate to the development of capital markets, the banking sector, insurance and risk financing, financial inclusion, remittances, credit guarantees and other areas including carbon markets, digital finance and trade finance. Where financial markets are at an earlier stage of development, the financing strategies have often included measures to drive fundamental financial market development such as deepening capital markets, enhancing market liquidity and establishing international standard regulations. The impetus of the INFF approach to connect financing with sustainable development outcomes is helping drive market development in parallel with embedding sustainability impact. In other words, countries are establishing their financial market fundamentals with the sustainability principles embedded within them, as part of the INFF process.

Many countries are prioritizing sustainable finance taxonomies, sustainability reporting and disclosure frameworks, and sustainability impact management and measurement as key areas of reform.

Thailand is using the INFF approach to support financing for the 20-Year National Strategy (2018–2037) and the thirteenth National Economic and Social Development Plan (2023–2027). As the first step in the INFF process, the Minister of Finance launched Thailand's DFA in April 2023.[145] The DFA highlights that domestic public and private resources are the main source of FfD in Thailand, constituting 96.3 percent of total development finance between 2013 and 2021. The report sets out a basis for a holistic financing strategy for the INFF, which synergizes a wide range of tools—from tax and budget to public debt, incentives and financial instruments—and matches different types of financing to their most appropriate use.

The adoption of sustainability reporting has been identified as a key priority in order to enhance monitoring of the private investment flows for the SDGs. Thailand has been a regional leader in ESG reporting and the use of ESG instruments for a number of years. Now the Securities and Exchange Commission of Thailand together with partners including the Thai Listed Companies Association have shifted beyond ESG towards the adoption of an SDG-based IMM approach. Last year the Securities and Exchange Commission of Thailand, Thai Listed Companies Association, the Global Compact Network Thailand and UNDP launched the *SDG Guidebook for Thai Listed Companies* based on the SDG Impact Standards and trained 25 listed companies on IMM and the guidebook.

This guidance will help 840 listed companies with a combined market capitalization of over $480 billion align their business practices and reporting with the SDGs. It embeds an SDG IMM approach within sustainability reporting under the Securities and Exchange Commission of Thailand's *56-1 One Report* requirements.[146] This is the first critical step to encourage and nudge companies to transition to an SDG-based impact approach. Over time, the capacity of the companies to integrate SDG impact into their operations will need to be built and the current voluntary reporting approach will shift to mandatory reporting. At the same time, as listed companies adopt the SDG-aligned principles to manage for impact, they will serve as good examples to other non-listed companies and influence the broader shift in the private sector towards sustainability.

Beyond sustainability reporting, Thailand is also advancing inclusive insurance and risk finance solutions, pioneering innovative biodiversity finance solutions and advancing SDG budgeting reforms, including by equipping parliamentarians to integrate climate change, gender and social inclusion into planning and budgeting oversight.

As the national finance strategy is developed, Thailand is using the INFF to help hardwire sustainability into its financial ecosystem.

"The SDG guidebook and the Impact Standards can be both a business opportunity and a new way to strengthen competitiveness for listed companies and the business sector in Thailand. Nowadays, companies want to invest in a country that has a clearer path towards sustainable development."

Srettha Thavisin, Prime Minister and Minister of Finance, Thailand

The experience in Thailand is illustrative of similar experiences across other countries. The adoption of sustainable financing taxonomies and disclosure standards position the financial sector as the main gateway towards private financing for sustainable development priorities. SDG impact management standards are complementary to reporting standards and are necessary for optimizing SDG performance.

Sustainable finance taxonomies, sustainability reporting and disclosure frameworks are a key area prioritized by many countries. Taxonomies establish commonly agreed and often scientifically based definitions for green/sustainable activities and projects that make positive contributions to the climate, green, social and sustainable development priorities. Twenty-three countries have prioritized green or sustainable finance taxonomies within their INFF, with work ongoing in countries including Armenia, Cambodia, Kyrgyzstan, Maldives, the Philippines, the Republic of Moldova, Rwanda, the United Republic of Tanzania and Uzbekistan. Mongolia launched its Sustainable Finance Taxonomy in 2023 (see chapter 1). Taxonomies can create market clarity, boost confidence and offer comparability across investments, hence putting these regulations in place allows domestic companies greater access to international sustainable capital. Interoperability among taxonomies is key to attracting international capital and avoiding market fragmentation.[147]

Disclosure and reporting frameworks enable reporting by financial and non-financial companies on sustainability impacts, with 16 countries having prioritized reforms in this area. Countries such as Cambodia, Maldives and the Philippines are currently developing sustainability reporting and disclosure frameworks for their financial sector actors or listed and non-listed companies. In Nigeria, the Financial Reporting Council, the ISSB and Nigeria Exchange Group Regulation Limited have adopted the two ISSB standards, IFRS S1 and S2, marking a crucial milestone in capital markets development for reporting on sustainability.

Countries are taking forward these reforms and policies through INFF processes to accelerate the development of the financial markets, with sustainability increasingly embedded at their core. It is important that taxonomies reflect the sectors and priorities for national sustainable development that are contextual to the countries. This must be balanced with considerations of interoperability with international markets through measures such as the adoption of the same industry classifications and technical screening criteria.

As these frameworks evolve, they will enable the development of targeted policy incentives and disincentives—such as applying different risk reserve requirements for loans aligned with the taxonomy, or targets and thresholds for the composition of the assets aligned with the taxonomy—that promote investment towards targeted sectors and activities. For example, in Mongolia's Monetary Policy for 2024, the central bank has included aligning the government-funded credit programmes with the SDG finance taxonomy. As a result, the Food Revolution national programme is financing green/sustainable projects in alignment with the taxonomy for a total amount of $90 million (~MNT300 billion). In addition, the stock exchange has introduced listing-criteria waivers and reduced listing fees for projects aligned with the Sustainable Finance Taxonomy. Khan Bank, one of the systemic banks in Mongolia, issued Mongolia's landmark green bond on the public market for $5 million, as part of the $30 million green bond issuance (the other $25 million of which is to be privately placed with strategic investors), and benefited from this green listing incentive adopted on the stock exchange within INFF. As financial markets develop and unlock more financing flows, this sustainability integration will ensure greater alignment with the SDGs and enhance the SDG impact per dollar of investment.

INFFs not only embed sustainability in the financial sector, but also advance innovations. These range from new green and sustainable financial instruments, to the creation of flexible regulatory environments or the establishment of platforms for innovative financial instruments.

Cabo Verde, for example, has historically relied on domestic public resources and ODA to finance its development plans. Through its INFF process, the country advanced two strategic shifts to scale private financing and to prioritize investment in the blue economy, in part as a means to reduce reliance on tourism, which was heavily affected during the COVID-19 pandemic.

In 2021, the Cabo Verde Stock Exchange launched Blu-X, a joint venture with UNDP to attract sustainable finance for the blue economy and the SDGs. The first bond issuance on Blu-X was launched in November 2021 at the Cabo Verde Stock Exchange—a social bond in favour of 22 municipalities, with an interest rate close to the public bond rate as a result of a treasury-backed guarantee.

Continuing on its innovative trajectory as the world's first blue economy sustainable finance exchange, Blu-X subsequently facilitated the public offering of a blue bond issuance worth $3.5 million by the International Investment Bank (IIB) in 2023. This supported affordable loans for microentrepreneurs and start-ups in coastal communities and investments in MSMEs operating in the maritime and fisheries sectors.

The issuance was based on the blue bond regulation enacted in November 2022 that draws on Atlantic Technical University's blue taxonomy. The blue bond was double-listed on the Luxembourg Green Exchange in 2024.[148] Over its first two years of operation, Cabo Verde has raised approximately $40 million via its Blu-X platform.

In recognition of this integrated approach to financing, the Cabo Verde Stock Exchange received two Global Banking & Finance Awards 2024 for the successful development of Blu-X. The platform was awarded the Most Innovative ESG Initiative Western Africa 2024 for its role in issuing six thematic bonds of the blue, green, social and sustainable varieties. With proceeds offering crucial financing for, *inter alia*, municipalities, children's social services, health care, domestic maritime transport, and even private companies to reduce their carbon footprint, Blu-X is contributing to economic diversification and decentralization of financing in a context of high public debt and vulnerability to climate change.

The second award recognized the Morabi microcredit agency's social bond as the Best ESG Social Bond Western Africa 2024. Developed with Blu-X's technical support and listed on the Blu-X platform in 2022, this social bond attracted essential capital and liquidity for financing micro-entrepreneurial projects targeting local coastal communities struggling to recover from the combination of the COVID-19 pandemic, inflation, drought, and the effects of climate change.

This international recognition comes at a pivotal moment for the Blu-X platform as it aspires to further develop its capacities and establish a veritable blue sustainable finance hub in Africa that offers sustainable investment opportunities for public and private entities across West Africa and Portuguese-speaking African countries.

"This is a major milestone! The partnership between BVC [Cabo Verde Stock Exchange] and LGX [Luxembourg Green Exchange], and BVC and IIB allowed us to reach this moment of having a security issued in Cabo Verde, to be listed in an international market as important as the Luxembourg Stock Exchange and displayed on LGX. This all started with the strategic partnership established with UNDP, which enabled us to put in place the Blu-X platform. Cabo Verde Stock Exchange is really doing its part in helping Cabo Verde to finance the SDGs."

Miguel Monteiro, CEO of the Cabo Verde Stock Exchange

Despite substantial progress on the adoption of sustainable finance regulations, many countries, particularly in Africa, are still at an early stage in this process of embedding sustainability in the foundations of financial markets. After developing policies, successful implementation would require capacity-building, continuous improvement based on lessons learned, and development of dedicated policy responses to encourage financing in priority SDG areas.

Countries and partners need to collaborate to track and promote financing towards SDG priorities based on interoperable yet nationalized taxonomies and disclosures. One example of such collaboration and support is the establishment of the European Union Sustainable Finance Advisory Hub (SFAH), which aims to support the development of sustainable finance frameworks, green bond standards and other sustainable financial instruments to LICs or MICs (see Box 17).

Box 17. European Union commitment on sustainable finance

The Global Gateway is a European Union strategy launched in 2021 by the European Commission and the European Union High Representative to boost smart, clean and secure links in the digital, energy and transport sectors and to strengthen health, education and research systems across the world. Under this strategy, the European Union aims to mobilize up to €300 billion between 2021 and 2027 for major investment in high-quality infrastructure development around the world to tackle the most pressing global challenges. Accelerating private financial flows towards sustainable investments in the partner countries will be critical to delivering on the Global Gateway, leaving no one behind.

Sustainable finance has a key role to play in delivering on the policy objectives under the European Green Deal as well as the European Union's international commitments on climate and sustainability objectives. It does this by channelling private investment into the transition to a climate-neutral, climate-resilient, resource-efficient and equitable economy, as a complement to public finance. The European Union strongly supports the transition to a low-carbon, more resource-efficient and sustainable economy, and has been at the forefront of efforts to build a financial system that supports sustainable growth. To this end, the European Commission has developed a comprehensive policy agenda on sustainable finance, initiated by the 2018 Action Plan on Financing Sustainable Growth and complemented by the Strategy for Financing the Transition to a Sustainable Economy in 2021. Key regulatory initiatives such as the European Union Taxonomy Regulation, the Sustainable Finance Disclosures Regulation and the Climate Benchmarks Regulation stemmed from these efforts, complementing public commitments with private sector-specific regulation. The European Commission is coordinating international efforts through its International Platform on Sustainable Finance and its High-Level Expert Group for scaling up sustainable finance in LICs and MICs.

The European Commission is working with the European Union DFIs and development agencies to offer technical assistance on sustainable finance in a coordinated manner through a SFAH. The SFAH will pool and coordinate European Union expertise and resources to LICs and MICs to support their efforts in catalysing and scaling up sustainable finance. Through a Team Europe approach with European Union Member States, European Union DFIs and development agencies, the SFAH will function as a single-entry point for high-quality and demand-driven interventions. These include the development of sustainable finance frameworks and standards as well as the promotion of sustainability-related financial instruments, in line with international good practice and, to the extent possible, building on the European Union's experience. Support will be provided in three thematic areas/pillars: 1) sustainable finance frameworks (e.g. taxonomies, disclosures, standards, labels); 2) technical assistance component of the Global Green Bond Initiative; and 3) support on other sustainability-related financial instruments, such as thematic loans or bonds, as well as developing a cross-cutting European Union centre for sustainable finance expertise.

Based on the collection of the experiences and lessons learned from the regions and countries that have adopted these sustainable finance regulations earlier than others, there are significant learning and exchange opportunities among countries to advance the technical robustness, practical applicability and interoperability of these regulations, while also promoting dialogue with the capital providers and investors (local, international capital providers, IFIs, DFIs, etc.) to achieve the desired outcomes of increased financing for sustainable development priorities. Collaboration across diverse stakeholders including national actors, investors, financial institutions and development partners is critical to ensuring that the investors and capital providers have an enhanced mandate and commitment to investing in sustainability, and seek out the projects/businesses contributing to SDGs, while countries put in place the necessary regulations, processes, data systems and capacities to track, monitor and report with confidence on the progress and impacts achieved.

Mobilizing investment in SDG-aligned pipelines

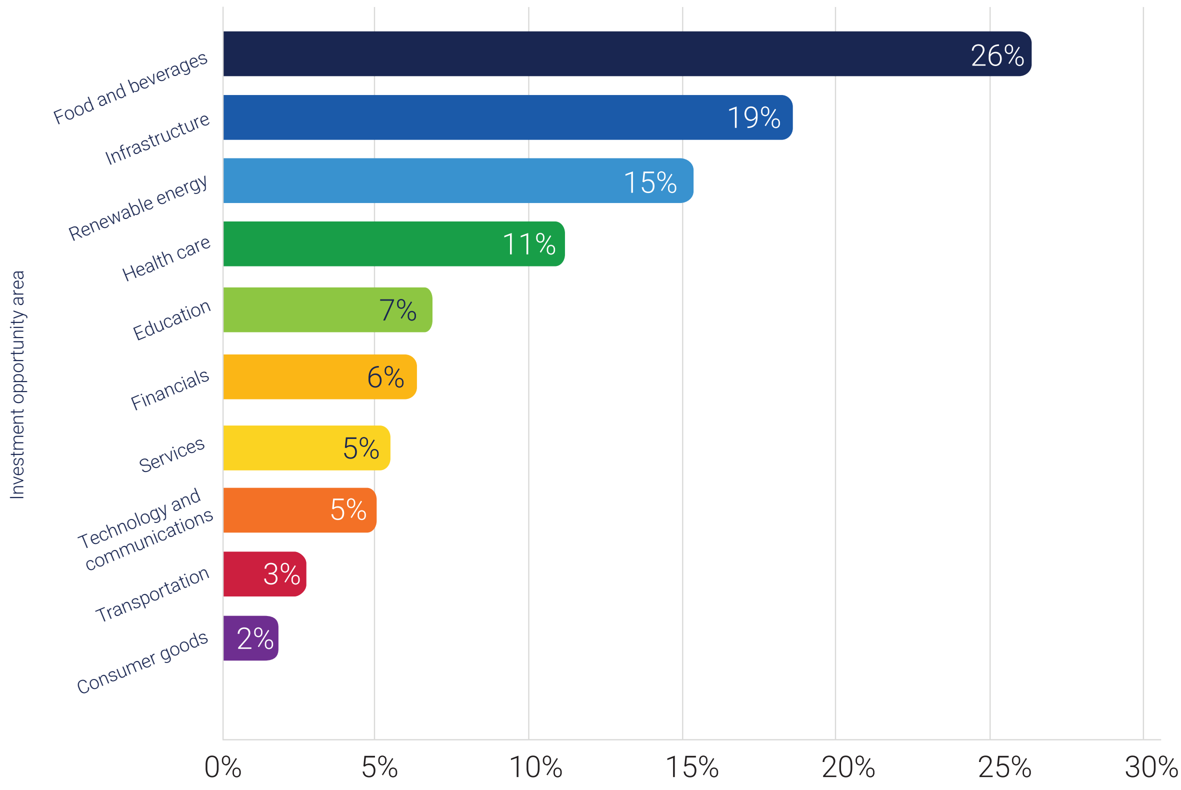
Alongside efforts to embed sustainability into the design of financial markets, countries are also aiming to channel investment into specific areas that are catalytic for SDG progress. Countries are making concerted efforts to attract investment and implementing various measures to promote it, ranging from investor round tables to one-stop-shops, to identifying investable pipelines of MSMEs with significant impact potential, to setting up investment promotion agencies.

A key challenge related to mobilizing private financing is the lack of investment opportunities and pipelines at the country level.[149,150,151] This is a core focus of investment promotion agencies, which deploy a range of tools to identify, market and incentivize investable pipelines. The first step in attracting financing and investment is understanding where investments are needed, and whether there is a commercially viable business model to attract private investment that, concurrently, has significant net-positive impact potential to drive progress on the SDGs. However, in many contexts, pipeline development has been disconnected from sustainable development priorities; it is often prioritized on the basis of economic or financial indicators alone, with limited awareness of its environmental and social value creation potential.

From a sustainable development perspective, however, it is important to consider pipelines that are both commercially viable and conducive to addressing sustainable development gaps. As countries apply the INFF approach, many are gathering market intelligence for investment opportunities with significant potential to contribute positively to the SDGs, and are considering how to adapt the tools of investment promotion to unlock and incentivize investment in them.

An analysis of market intelligence developed by Governments, investors and the private sector in 29 countries highlights more than 400 investment opportunity areas:[152] proven business models with both market potential and significant potential net-positive impacts on the SDGs, aligned with national policy priorities (Figure 13).[153] Market intelligence employs holistic impact analysis to identify risks and opportunities. This can inform the impact measurement and management practices of businesses and investors to deliver investments with authentic net-positive impacts.

Figure 13. Investment opportunity areas for national sustainable development priorities



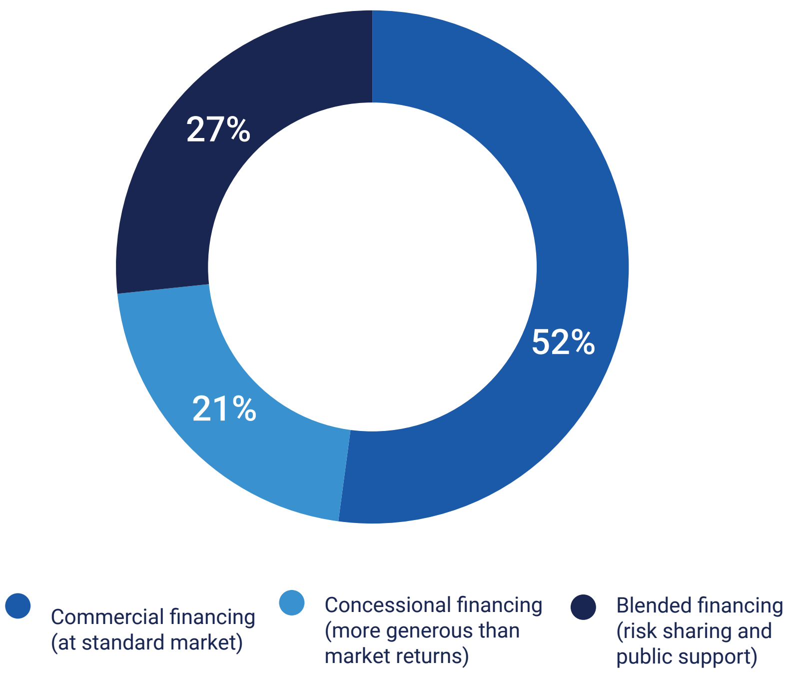
Common areas where the private sector can contribute significantly to the SDGs across countries include investments in the food and beverages sector, followed by infrastructure, renewable energy and other economic sectors that have important implications for food security, land use, resource conservation and livelihoods. These investment opportunities identified are reflective of the unique development challenges coupled with the market and impact opportunities specific to the country. It is important to note that to achieve robust SDG performance—that is, to deliver on the potential positive impacts and mitigate negative impacts—investments must be made with proactive impact management. This is no different than the well-known fact that to deliver on potential financial/business performance, investments/business must be carried out with quality financial/business management.

Many countries take into account the implications of the identified investment opportunities in terms of gender, climate, and marginalized groups based on ethnicity, class or other factors of inequality. They often integrate innovative solutions such as digitalization to reach the last-mile population. Investments into the investment opportunity areas have the potential to contribute to progress on multiple SDG priorities and cross-cutting development challenges such as addressing inequality, as long as impacts are managed intentionally and holistically. For example, about 20 percent of the investment opportunities identified across the countries involve technology-based solutions to reach last-mile populations, enabled by increased access to internet services and smart devices. Zanzibar has prioritized investment opportunities in health care because it faces high regional disparity of life expectancy at birth (with a four-year gap between regions), lack of modernization of the health care services via Information and Communication Technologies (ICT) development, and a shortage of health care workers, especially qualified health professionals. Therefore, Zanzibar has prioritized investment opportunities related to digitalizing client-level health care services and adopting digital health solutions by establishing/improving ICT infrastructure and digital health care facilities. Without digital health solutions, reaching the population in different regions would require significantly more resources to prepare physical infrastructure and develop the capacities of human resources.

While private sector engagement holds the potential for increased scale and expansion of services, its participation in the delivery of social services such as health care and education can complement, but not replace, government services.[154] Even highly subsidized fee-paying services may still be unaffordable for some.[155] This is another reason why proactive and holistic impact management practices by the public and private sector are necessary to maximize positive impacts, make impact-informed choices and reduce risks of unintended consequences.

Investment opportunities require different financing models, depending on their nature and country contexts. A total of 52 percent of investment opportunity areas can be market financed, 27 percent of the financing requires blending public and private financing sources, and the remaining 21 percent of the investment opportunities require concessional financing that requires lower return than that of the market (Figure 14). For example, in the consumer goods sector, construction material manufacturing is identified as an investment opportunity with an estimated market value of over $50 million in Uganda due to its expected impact of enabling access to affordable housing options for low-income communities, with an indicated return on investment of 15–20 percent. In Ghana, the cookstove manufacturing market is estimated at $100 million–$1 billion, with an indicative return on investment of 20–25 percent through reducing the use of unsustainable energy sources.[156]

Figure 14. Financing models for SDG investment opportunity areas



Unlocking investment at scale in the areas prioritized by countries will require addressing key constraints and bottlenecks. Common constraints hindering the investments to flow into these impact opportunity areas include high capital expenditure, lack of skills and capacities for project execution, affordability of reaching last-mile populations, and legislative and regulatory constraints that hinder private sector participation.

To address these issues, countries are prioritizing key financing solutions in their INFFs. This includes mechanisms such as blended financing, the revision or development of laws on PPP and investments, the use of risk-sharing mechanisms and concessional financing to subsidize initial capital expenditures, or the reduction of costs to enhance affordability of products and services. Some countries are advancing capacity-building activities to address gaps in skills and capacities, with a growing number of countries mobilizing investment in these areas through impact venture accelerator programmes or business incubators.

Indonesia, for example, launched its INFF Roadmap in August 2022, linked to the Medium-Term NDP (2020–2024). Private financing is expected to cover about 40 percent of the total financing needed.

To attract investments from the private sector for the SDG priority areas, Indonesia developed an SDG Investor Map in 2022, with support from UNDP, highlighting the investable opportunities in SDG-enabling sectors that have potential to create profound development impact as well as provide favourable commercial returns to investors. Eighteen investment opportunity areas were identified, encompassing six sectors: education, health, infrastructure, food and beverages, renewable energy, and financial services, with an estimated market size of at least $13 billion. Sector deep dives have been convened to explore the investment and policy white spaces to improve the enabling environment. To further channel investments towards the SDG priority areas, the Ministry of National Development Planning developed the Indonesia SDG investment dashboard, which acts as a matchmaking platform to connect the pipeline of SDGs projects with potential impact investors.

Indonesia also implemented a Blue Finance Accelerator programme to provide capacity-building and support mechanisms on business and impact for start-ups and SMEs operating in blue sectors.[157] The Blue Finance Accelerator aimed to catalyse public and private capital within the social entrepreneurship sector. As a collaborative and innovative platform, this programme enabled local start-ups, SMEs and government units to scale up blue economy projects. Twelve accelerator ventures provided solutions to over 60,000 individual beneficiaries and 500 institutional beneficiaries across eight Indonesian provinces, with 83 percent of the ventures women-led or women-founded.

In the impact investing sphere, the Indonesia Impact Fund was initiated in 2021 as the first private equity impact fund in the country by the Asia-Pacific Economic Cooperation Business Advisory Council (ABAC) and UNDP Indonesia, with Mandiri Capital Indonesia as the fund manager. The Indonesia Impact Fund invests in start-ups by considering not only financial returns but also their potential impact contribution in the nine target SDG sectors.[158] It is seeking subscription of up to $30 million and ultimately aims to invest in 15 to 20 start-ups (Indonesian and/or Southeast Asian start-ups with Indonesia as their primary market) within eight years. The Indonesia Impact Fund is implementing the SDG IMM framework which guides its investment decision-making and has a focus on holistic impact management practices aligned with the SDG Impact Standards.

These measures sit within the wider context of an INFF in Indonesia that has witnessed much progress and innovation through SDG budget tagging, thematic bonds issuances (see chapter 2 for details), alignment of philanthropic and faith-based financing, impact investment, and embedding of SDG IMM into business operations.

Figure 15. Priorities of Indonesia's INFF road map

"Substantial financing is required to respond to today's sustainable development challenges. The need for a holistic, integrated approach to financing recovery and medium- to long-term sustainable development is greater now than ever. INFF will provide a holistic strategy to bridge the SDG funding gap and unleash new financing opportunities through public and private partnerships."

H.E. Suharso Monoarfa, Minister of National Development Planning, Indonesia

Pakistan launched its SDG Investor Map in 2023 which identified 15 investment opportunity areas with a potential market size of $96.2 billion.[159] At the SDG Investment Fair held in New York in April 2023, Pakistan presented a climate-resilient investment portfolio worth $2.84 billion, developed with technical assistance provided by UNDP Pakistan's SDG Investments & Climate Financing Facility. In Colombia, 22 SDG-aligned investment opportunities have been identified in seven economic sectors: food and beverage, technology and communications, renewables and alternative energy, health care, financials, infrastructure and services, and education, with a combined market size of at least $14.5 billion. To facilitate investment flows towards these areas, Colombia implemented the Growth Stage Impact Ventures programme and selected seven enterprises as finalists from over 90 nominated ventures to help scale up their businesses, representing $20 million in investment opportunities with the potential to impact the lives of more than 28,000 beneficiaries. Countries such as Cambodia, Fiji, Nigeria, the Philippines and Tanzania are implementing similar project pipeline development and accelerator activities.

Having identified investment opportunities and built a pipeline of projects, countries are implementing measures to promote investment opportunities, as demonstrated by the example of Indonesia's SDG Investor Platform and Pakistan's investment portfolio showcased at the SDG Investment Fair.

These efforts will support the growth and development of enterprises that contribute to achieving the SDGs, as well as embedding SDG impact at the core of business decision-making and practice.

Public-private partnerships driving private financing towards sustainable development

According to the OECD, during 2012–2020 almost $300 billion was mobilized from the private sector by official development finance interventions, mostly through direct investment in companies and special purpose vehicles as well as guarantees. Overall, mobilized private finance focused on countries with lower-risk profiles, i.e. mostly MICs (87 percent), and on economic infrastructure and services (82 percent). Only 12 percent of mobilized private finance during this period benefited projects in LICs and 7 percent was in support of social infrastructure and services.[160] This illustrates that the private finance mobilized is not reaching the countries and sectors that are most in need; in other words, capital flows are misaligned with the SDGs.

PPP and blended finance have important roles to play in the policy toolkit being advanced in many countries to scale up various kinds of investment. Encompassing a wide variety of tools and modalities, they can be used to reduce and share risks, lowering the barriers to entry for private investment. They can enable investment at greater scale than may otherwise be possible. And crucially they can be designed to expand the impact of private investment, particularly by enhancing access to services to underserved communities and vulnerable populations in the last mile that may otherwise be perceived as too high-risk for purely commercial ventures.

Certain principles should be adhered to for effective PPP, such as considering the structure and use of blended finance instruments; sharing risks and rewards fairly; meeting social and environmental standards; ensuring accountability mechanisms and transparency, including in public procurement frameworks and contracts; and aligning with the national development priorities.[161] Blended financing risks should also be considered: it may crowd out the domestic financial sector in the host country or could unnecessarily subsidize private investment in a way that jeopardizes domestic markets.[162]

Among the countries with an operational financing strategy, PPP and blended finance approaches account for 15 percent of reforms prioritized. This highlights their importance for unlocking and aligning financing.

PPP modalities are being used with a focus on financing large-scale projects, particularly in infrastructure. Pakistan set up its SDG Investment & Climate Financing Facility to identify, develop and leverage blended finance solutions for a pipeline of 64 climate projects with market value of $9.3 billion. The country has also collaborated with JS Bank to set up an Innovation Challenge Cup to help entrepreneurs win grants for business seed funding and blend in concessional lending from JS Bank. Pakistan's Punjab Province has prioritized the establishment of an infrastructure guarantee fund in its recently launched financing strategy to provide risk mitigation and strengthen credit enhancement mechanisms.

PPP allow risks to be shared between the Government and the private sector, including the risks related to implementing large-scale projects such as construction risk, financing risk and governance risk. Through PPP, Governments can implement multiple projects and address infrastructure gaps faster than relying on public resources alone for financing the projects.

There are certain concerns related to implementing PPP for financing the SDGs, such as creating a profit motive, inherently increasing the cost of public services, abrogating the responsibility of the public sector to deliver essential services, burdening the budget for future generations, focusing on individual projects with individual results and lacking an enabling environment.[163] These risks should not be overlooked and must be carefully appraised against the benefits before proceeding with PPP projects. The Government could use the capacity of the private sector in designing or operating essential public services such as transport, water, power and urban services and in sectors such as energy, for example, overcoming the significant upfront costs required to establish or extend power generation and distribution networks, which would be challenging for the public sector to tackle alone.[164] If well designed, PPP can also harness the technology, innovation and high efficiency of the private sector.

Ten guiding principles for effective design and delivery of PPP for the SDGs, developed by the United Nations Economic Commission for Europe (UNECE),[165] can help manage the risks associated with these partnerships. These include ensuring peoples' needs are listened to, allowing cities and other local levels to develop projects themselves, increasing officials' skills in delivering projects in line with the PPP for the SDG outcomes, actively engaging communities, enhancing transparency and disclosure, derisking projects with more predictability in the enabling environment, aligning projects' selection criteria with the SDGs and environmental sustainability, ensuring blended financing to catalyse private sector investment, and avoiding debt traps to ensure the fiscal sustainability of PPP for the SDGs and the transparency of fiscal policies.

Countries are developing blended financing mechanisms to finance PPP projects or enhance local financial institutions' ability to lend to SMEs or to certain industries and mobilize investment from international and domestic private investors. Blended financing uses catalytic capital from public or philanthropic sources to increase private sector investment in developing countries to realize the SDGs. It takes different forms, such as combining concessional finance with private capital, guarantees, credit enhancement, equity investments, concessional loans, insurance and so on. DFIs, IFIs and national development banks play a critical role in the process of developing blended financing mechanisms and catalyse private investments that otherwise could not have attracted financing.

The **United Republic of Tanzania**, for example, is developing its INFF linked to its third Five-Year Development Plan (FYDP III). Achieving the goals of FYDP III will cost an estimated TZS 115 trillion ($45 billion) over five years, a third of which will come from private resources, from both domestic (51 percent) and international (49 percent) sources.[166]

The country has recently graduated to a lower-middle-income country, which impacts the development assistance and concessional borrowing that it receives. To address this challenge, the United Republic of Tanzania is using the INFF approach to shape innovations designed to unlock and align public and private capital with the objectives of FYDP III. At the same time, the Tanzanian archipelago Zanzibar is developing a subnational sustainable financing strategy for financing the Zanzibar Development Plan 2021–2026 and the country's Vision 2050. The country has already advanced a number of innovations to expand the scale of private investment that contributes towards sustainable development priorities.

Corporate thematic bond issuances have been very successful, with two commercial banks having issued $66.8 million worth of green and social bonds. CRDB Bank issued a green bond worth TZS 781.82 billion, which is the largest green bond issuance by a corporate entity in sub-Saharan Africa. Bond proceeds will be used to finance multiple large-scale climate-change adaptation and mitigation projects with high impact on the social and economic development of the United Republic of Tanzania. The International Finance Corporation (IFC) played a key role in inspiring confidence among other private investors and subscribed to 29.3 percent of the bond, which was listed on the Dar es Salaam Stock Exchange and was oversubscribed by 429 percent. IFC's investment in the bond is supported by the International Development Association's Private Sector Window's Local Currency Facility, which helps reduce the currency risk. IFC's support includes a performance-based incentive associated with greening the United Republic of Tanzania's affordable housing developments, and at least 40 percent of IFC's bond investment will be dedicated to supporting green buildings.

Another commercial bank, NMB Bank, also issued a TZS 1 trillion multi-currency medium-term note, targeted at financing multiple large-scale projects with a positive impact on social and economic development in the country, especially projects focusing on women and youth. The multiple currency structure of the bond helps address foreign-currency challenges by attracting the participation of both local and international investors. IFC also played the role of an anchor investor with the support of the Local Currency Facility.

These issuances represent important steps towards the objective of developing alternative long-term finance in the public and private sectors.

The TADB successfully piloted a blended financing mechanism combining a mixture of grants, loans and equity. UNDP provided a $200,000 grant to support the development of bankable projects with clear business and financial models. Ten projects in the agricultural sector, such as dairy, rice, sunflower, honeybee and grape production, were selected and received investment capital worth $8 million from TADB, with an additional $8 million from the project owners. Some of the projects and businesses have experienced significant growth, expanding their facilities with TADB, enlarging their operations and creating opportunities for out-growers and service providers in the community.

The long-term financial resilience of the agricultural sector is critical. Hence the United Republic of Tanzania is also developing risk finance solutions and long-term transformation of insurance markets, and building the financial resilience of smallholder farmers to climate risks.

As these innovations advance, the country has also identified a series of investment opportunity areas that are catalytic for SDG progress, and it is developing an SDG finance taxonomy. Ongoing work to align tax policy with the SDGs as well as the planned deployment of sovereign thematic bonds and a sustainable sukuk by Zanzibar will further strengthen public finance for sustainable development. In 2023, the United Republic of Tanzania achieved a significant milestone by engaging international sovereign credit rating services and securing a B2 Positive rating from Moody's Investors Service and a B Positive rating from Fitch Ratings Ltd, signalling the country's creditworthiness to potential investors.

"The Government made a purposeful decision to adopt innovative financing mechanisms to allow the private sector to come in and work together with Government so that pressure on the Government balance sheet will be reduced."

Dr. Charles A. Mwamwaja, Commissioner for Financial Sector Development, Ministry of Finance, United Republic of Tanzania[167]

Other countries are also implementing similar activities. Senegal, through its Ministry of Finance and Budget, published its Sustainable Financing Framework for thematic and sustainability-linked debt instruments in September 2023.[168] Shortly after its launch, the African Development Bank approved a partial credit guarantee of €400 million to facilitate the mobilization of green and social investments.[169]

In Uganda, a Climate Financing Facility was set up under the management of the Uganda Development Bank, which committed UGX 50 billion (about $13.5 million) to capitalization of the facility. The facility is a strategic fund that is already making 'affordable finance' available for promoting climate-smart agriculture, ensuring climate-resilient infrastructure and promoting low-carbon industries.

Bhutan has reviewed and amended its PPP policy within the INFF work. The revised policy aims to streamline the approval process for PPP projects and categorize them into large or small scale, and allows unsolicited project proposals, which were previously restricted. In Mongolia, the Law on PPP was adopted in 2023, setting the legal and regulatory foundations for these partnerships and enabling the implementation of different modalities for them. These changes in Bhutan and Mongolia are designed to enhance private sector participation in financing for sustainable development, while supporting effective collaboration across public and private sector actors to deliver development projects.

Pakistan's Punjab Province became the first subnational government to launch a financing strategy based on the INFF approach in February 2024.[170]

Facing an estimated $519.5 million financing gap for the SDGs, coupled with limited fiscal space exacerbated by natural disasters and the COVID-19 pandemic, the provincial government of Punjab aims to reduce its historically high public expenditure. The focus is shifting to outsourcing non-essential activities to the private sector by providing a level playing field for capital deployment, and building regulatory and legal capacity for executing private sector-led projects that offer maximum value for money and long-term affordability.

Against this backdrop, the Planning & Development Board, in consultation with the Finance Department, launched the Punjab Integrated Financing Strategy. The strategy has a strong focus on mobilizing private capital and broadening the range of finance to support the Punjab Growth Strategy 2023 and the Punjab Spatial Strategy 2047.

The strategy sets out key priorities, including creating a provincial climate fund, tapping into voluntary carbon markets and establishing an infrastructure guarantee fund. Local business incubators and accelerators, a digital platform for verified businesses and impact investment promotion roadshows will nurture growth in impact businesses. PPP and partnerships with commercial banks and beyond are designed to develop the telemedicine sector as well as accessible hospitals, in order to improve access to health care, alongside investment in affordable housing. Punjab Province is already taking steps towards being accredited by the Green Climate Fund to mobilize climate finance and create institutional partnerships for implementing the National Climate Change Policy along with the NDCs.

Moving forward, the Punjab Integrated Financing Strategy calls for a collaborative effort involving a wide range of stakeholders, including Governments, civil society, the private sector and development partners. The focus is on enhancing policy coordination and monitoring transparency to achieve sustainable development and inclusive green growth in Punjab.

"The Integrated Financing Strategy acts as a central piece for accelerating the achievement of the SDGs Agenda in the context of Punjab by identifying innovative financing strategies ranging from climate financing, private sector engagement, and impact investing to mortgage financing for housing."

Iftikhar Ali Sahoo, Former Chair of the Planning and Development Board, Government of the Punjab[171]

Given the importance of PPP and blended financing in attracting private capital, countries prioritize the development of these mechanisms within their INFFs. With the development of blended financing mechanisms, countries—in particular LICs and those that are currently unable to access finance—will be able to tap into international capital and finance a diverse portfolio of projects contributing to the SDGs, including social ones.

The role of IFIs, DFIs and development partners is critical in helping countries leverage private capital.

Rwanda's national development bank, for example, became the first globally to issue a sustainability-linked bond (SLB) in October 2023. The Development Bank of Rwanda successfully issued a FRW 30 billion (~$25 million) SLB on the Rwanda Stock Exchange, as part of the FRW 150 billion medium-term note programme.

The SLB is linked to the KPIs on mainstreaming the ESG framework in partner financial institutions, increasing women-led business loans, and financing affordable housing, with innovative step-down coupon features. One of the main features of this issuance is the 33 percent credit enhancement via the World Bank's lending operation to the Rwandan Ministry of Finance. The credit enhancement demonstrates a critical role that IFIs can play in leveraging private capital for financing sustainable development priorities in developing countries. The proceeds will be on-lent to critical sectors of the economy such as agriculture, exports, renewable energy, social infrastructure, housing, education and the digital economy.

The Development Bank of Rwanda, in collaboration with the Rwanda Green Fund, has also launched IREME Invest, an investment facility that offers a range of tailored financial products and services to accelerate green investment and the country's response to climate change. It comprises a Project Preparation Facility that disburses grants to projects ready for investment, and a Credit Facility that offers concessional loans and credit guarantees to mitigate investment risks. Since its launch at COP27, the facility has attracted over $300 million in investment, showcasing how the strategic use of mixed financing can bridge the gap between capital markets and climate action goals.

This example highlights the critical role that national development banks, IFIs and DFIs play in partnering with the private sector, leveraging private capital and accelerating the financing towards sustainable development priorities.

The systemic, country-led transformations being advanced by Governments through their INFFs are contributing towards developing a sustainable financing ecosystem at the country level, enhancing alignment of financing with the SDG priorities and strengthening transparency and accountability. INFFs can serve as the platform to bring together different constituents to enable effective use of PPP, blended financing and related instruments.

As IFIs and DFIs scale up their engagement to unlock private financing for sustainable development and climate objectives, it is crucial that this is embedded as a response to these national priorities and processes at the country level. Country platforms have an important role to play in enhancing coordination among MDBs, in collaboration with national development banks and the domestic financial and private sector (see Box 18).

Financing strategies and INFFs provide the demand side to which these country platforms can respond. These platforms lead coordination among MDBs for the deployment of financing instruments to scale up private investment in key areas prioritized through country-led INFF processes.

Box 18. Country platforms

The concept of country platforms was introduced in 2018 as one of 22 proposals set out by the G20 Eminent Persons Group on Global Financial Governance. Country platforms were conceived as a way of joining up IFIs' operations, as well as those of other development partners, in order to enhance development impact. The aim was to maximize development partners' contributions as a group, including by convergence around core standards, in order to scale up private investment.[172]

In 2019, the World Bank was working with 11 countries to put country platforms in place,[173] while in 2020 the G20 endorsed a reference framework for country platforms.[174] This set out five principles through which they could foster collaboration to enhance the consistency and coordination of support provided at the country level, building on ongoing platforms. In 2021, the Glasgow Financial Alliance for Net Zero set out a Country Platforms Action Plan,[175] focused on building country platforms to deploy blended finance at scale to support the delivery of NDCs, with the aim of mobilizing $1 trillion in new private capital flows to emerging markets and developing economies by the middle of the decade.

To date, just energy transition partnerships have been established as sectoral country platforms in four countries: Indonesia, Senegal, South Africa and Viet Nam. These bring together between 5 and 10 bilateral and IFI partners in each country to support the Government to mobilize investment that supports the transition from coal towards renewable energy.[176]

Recommendations for FfD4

Recommendations for the FfD4 outcome:

1. *Emphasize the foundational role of SDG-aligned financial regulations to mobilize and align financing for sustainable development.*

2. *Incorporate SDG alignment into the design of investment opportunities, pipelines, promotion and facilitation.*

3. *Strengthen advocacy and collaboration with global investors and the business community to embed SDG impact in their operations and prioritize investment into the sustainable development priorities at the country level.*

Recommendations for Governments:

1. *Use the INFF as a platform to unlock private investment that accelerates SDG progress, with an emphasis on sustainability and inclusivity.*

2. *Reconfigure the design of regulations, policies and financial instruments across the private and financial sectors to embed sustainability.*

Recommendations for the private sector:

1. *Engage with INFFs as a platform for shaping and responding to national financing priorities, and engage with the reform process as a mechanism for understanding policy risk.*

Recommendations for the international community:

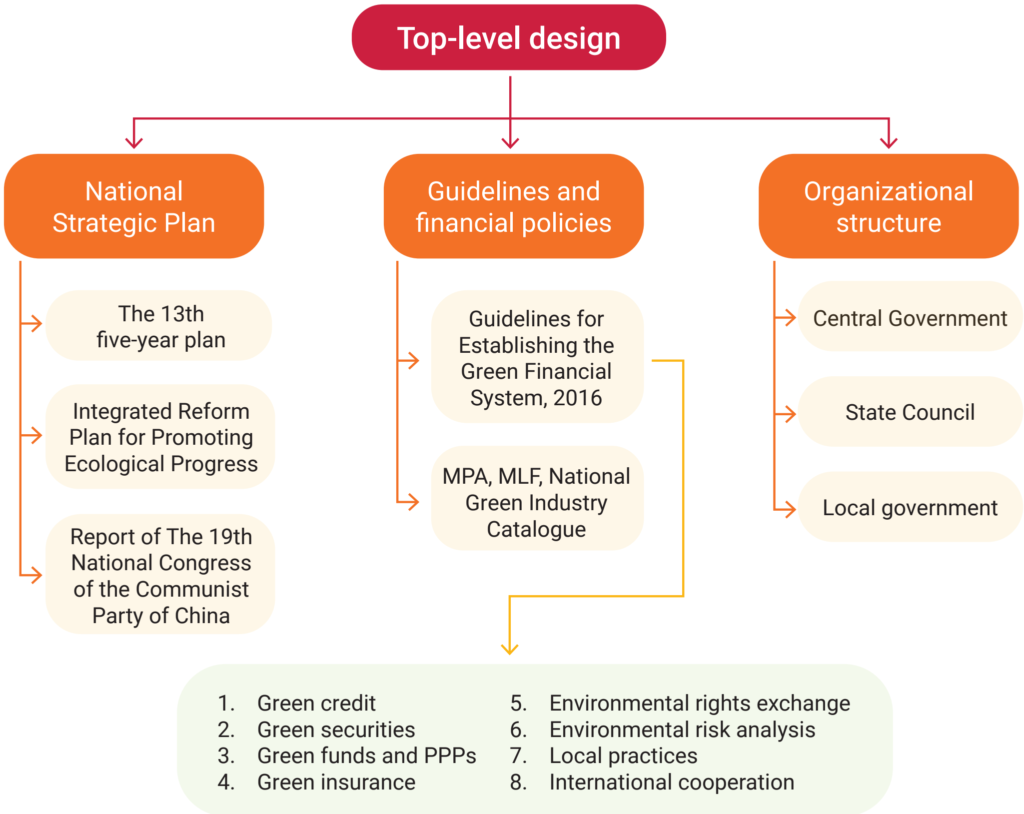
1. *Solicit commitment by the international community—IFIs, bilaterals and international organizations—to align programming, technical assistance and use of instruments on financing with the priorities articulated through country-led INFFs, and to connect coordination mechanisms and country platforms with the national institutions leading INFF implementation.*

China case study: Green finance policy framework

As one of the world's largest economies and one of the largest emitters of greenhouse gases, China plays a crucial role in the global low-carbon transition and the 2030 Agenda. Meeting its national climate goals of ensuring carbon emissions peak before 2030 and achieving carbon neutrality by 2060 is essential. Achieving these targets is estimated to require an average annual investment of between $350 billion and $600 billion. This investment represents an annual cost of between 2 percent and 3.5 percent of China's current GDP.[177] To mobilize the finance needed at scale, it is crucial to redesign the financing system and repurpose it for the Paris Agreement and the 2030 Agenda.

Starting from a strong focus on the green sector, China has been working to strengthen the redirection of financial flows since 2016. It has established a comprehensive green finance policy framework (Figure 16), with strong state-level leadership and a whole-of-government approach, offering valuable lessons for developing country-led financing strategies, including for countries using the INFF approach.

Figure 16. China's green finance policy framework



Source: Compiled by the International Institute of Green Finance, Central University of Finance and Economics, China, from publicly available resources.

In 2015, China's State Council and Central Party Committee released two groundbreaking documents: *The Opinions on Accelerating the Construction of Ecological Civilization and The Integrated Reform Plan for Promoting Ecological Progress*.[178] These documents laid the foundation for China's green development regime. In 2016, the central bank and six ministries co-designed the *Guidelines for Establishing the Green Financial System*,[179] which is seen by many as the core financing strategy document. Its launch put China's green finance onto an accelerated track.

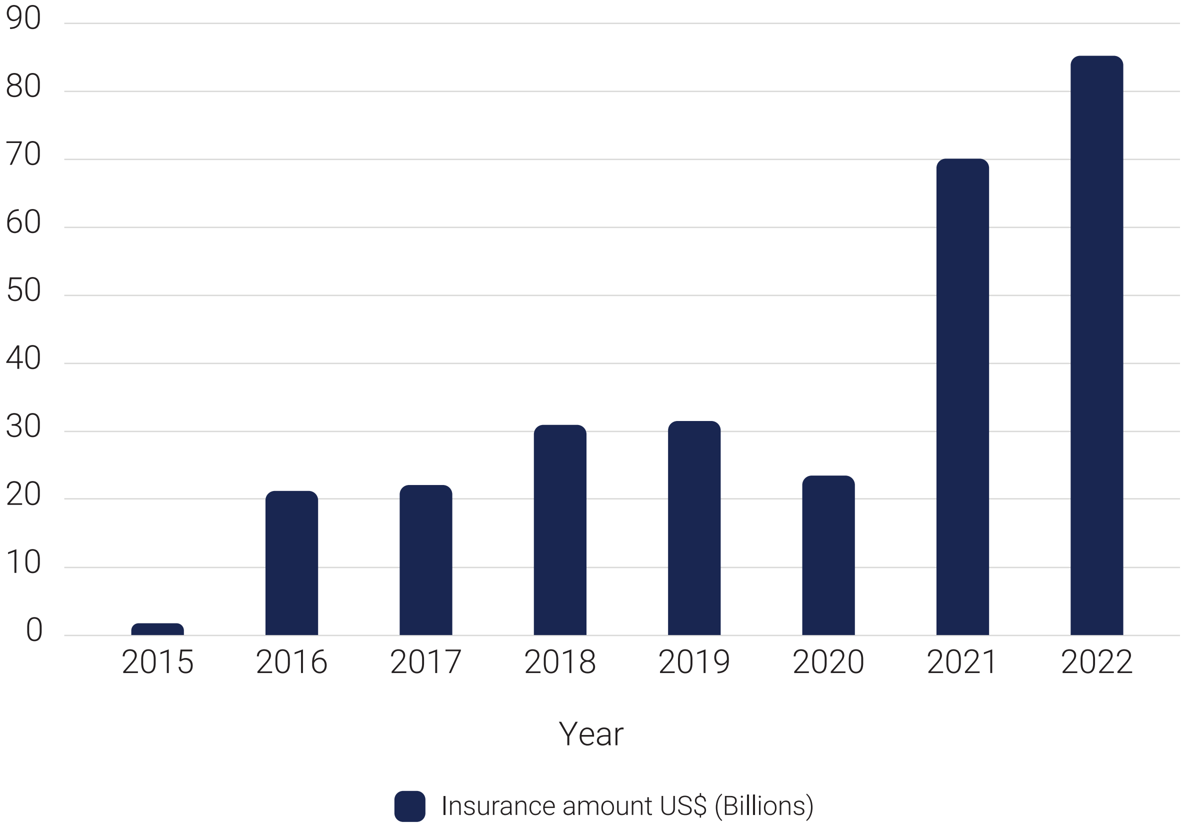
Following the guidelines, a full range of policy reforms have taken place to redirect financial resources from business-as-usual to green and low-carbon sectors. These reforms include: 1) taxonomies and standardization to define what 'green' means across industries and financial instruments; 2) public finance reforms showcasing how to 'finance green' through greening the government procurement system, setting up national and subnational green funds, and mainstreaming ecological fiscal transfer mechanisms; 3) pricing mechanisms via the launch of a national emission trading system and relaunch of the voluntary carbon credit system;[180] 4) stronger incentives for private finance towards green sectors through interest payment subsidies, tailored monetary policies, statistical system and macro-prudential assessment; 5) efforts to enhance transparency and coherence.

These reforms have been strengthened through disclosure and reporting trials, in partnership with global initiatives such as the Task Force on Climate-related Financial Disclosures and the Taskforce on Nature-related Financial Disclosures. As part of China's support for the G20 Sustainable Finance Working Group, experts and stakeholders are also working with the ISSB to tackle crucial challenges such as the high cost and insufficient capacities of SMEs in sustainability reporting. Overall, these reforms cut across eight key areas of finance within the scope of the guidelines (Figure 16).

As an example of the use of monetary policy instruments to incentivize private finance, in November 2021, the People's Bank of China introduced the Carbon Emission Reduction Facility (CERF) to offer low-interest loans to commercial banks supporting carbon emissions projects. For qualified carbon emission reduction loans, the People's Bank of China provides the commercial lenders with funds worth 60 percent of the principal at a rate of 1.75 percent. By the first half of 2023, CERF had facilitated $63 billion in loans to banks,[181] leading to $105 billion in green lending,[182] contributing to a reduction of over 150 million tonnes of carbon emissions.[183] By requiring climate information disclosure and third-party verification, CERF has also helped enhance transparency and the emission management capacity of commercial banks and enterprises.

To foster learning and experimentation, China established eight subnational green finance pilots. In Huzhou, for example, a local green finance act was issued to accelerate financing of the city's low-carbon transition of traditional sectors (textile and manufacturing) and its development of green sectors (new energy vehicles, ecological tourism and sustainable farming). By strengthening coordination between approximately 20 different governmental departments (including the industry planning authorities, environmental authorities and social welfare authorities), a digital platform was established to aggregate data and disclose information regarding local companies' ESG performance. This platform aids in tailoring financial incentives for better-performing enterprises and facilitates matchmaking between financial institutions and businesses, particularly MSMEs. By the end of 2023, the outstanding green loans in Huzhou had reached $47.9 billion,[184] marking an 800 percent increase from the beginning of 2018. These loans accounted for 32.1 percent of all types of loans in the city, which is 19.7 percent higher than the national average.

Figure 17. Green bond yearly issuance in China



Source: Climate Bonds Initiative Interactive Data Platform,[185] as at 7 March 2024.

China's country-led approach, combining political will, system-wide coordination, as well as pilot work on exploration and learning, has boosted its green finance growth. In 2022, expenditure on government procurement of products with environmental labelling reached $11.8 billion,[186] which accounted for 87.1 percent of products purchased by the Government through a competitive procedure.[187] The Government has set up its first national green development fund, with the first phase of investment totalling $12.3 billion.[188] In only a few years, China's labelled green bond market has grown 'from zero to hero' (Figure 17), and is now among the world's largest. According to official Chinese data, the country's outstanding green loan also surged to approximately $4 trillion by the third quarter of 2023.[189] Moving forward, the Government is working on innovative solutions to expand the scope of green finance to cover crucial issues such as how to finance nature-based solutions and a just and inclusive transition.

Chapter 4

Institutional functions for an integrated approach to financing

Headline messages

- Strengthening institutional capacities to manage finance policies for sustainable development results, enhance integrated policy design and delivery across government, and deepen participation, transparency and accountability, are at the heart of building a sustainable financial ecosystem.

- INFFs provide a country-led platform for integrated financing policy design and delivery, institutionalized at the national level within the planning and finance policy system.

- It is important that efforts by IFIs and MDBs to coordinate and scale up financing for sustainable development, including through country platforms, connect institutionally with INFFs at the country level.

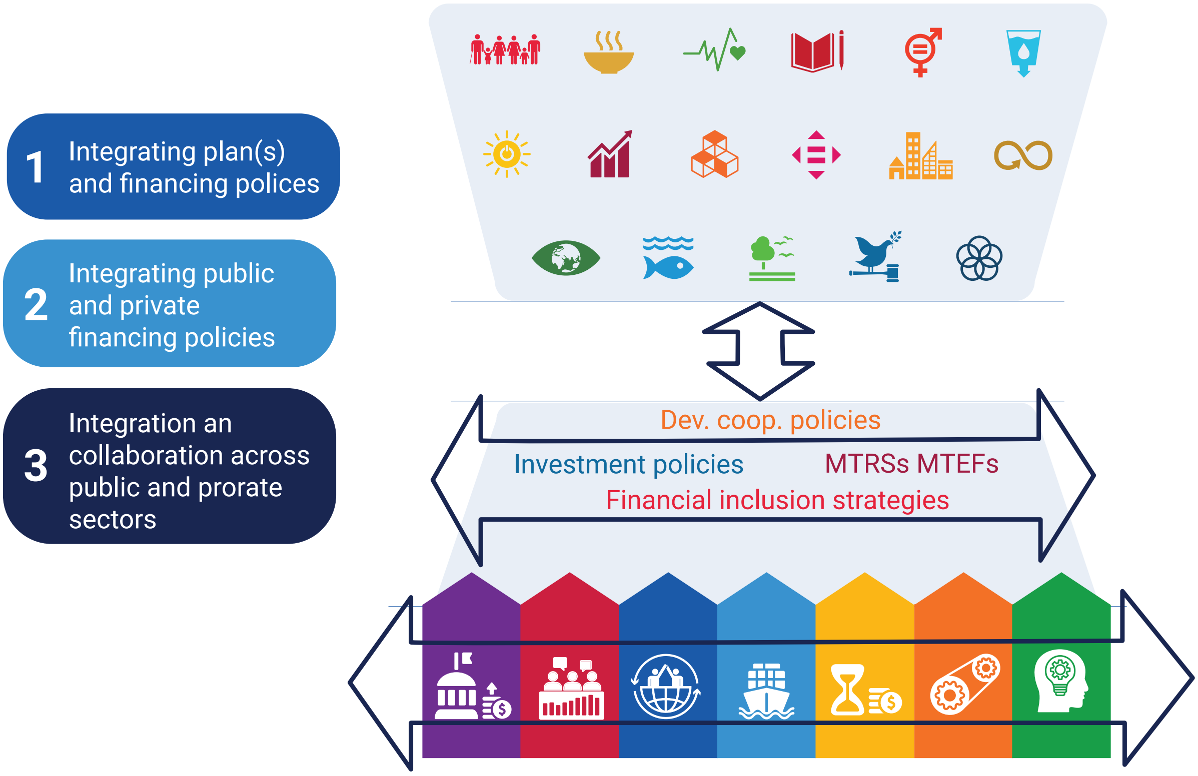
- Financing dialogues that bring together policymakers, private sector, civil society, partners and other stakeholders are a crucial foundation for innovation and accountability in finance policy design.

- Countries are institutionalizing a wide range of changes to enhance coordination within Governments and to deepen participation in public policy design and implementation.

Previous chapters of the report have explored the financing strategies that countries are advancing to reshape the financing architecture, leveraging and aligning public and private finance for sustainable development.

Looking across country experiences, there are three core integrations that underpin the drive to reform the national financial ecosystem through the INFF approach (Figure 18). These speak to how each financing policy embeds the social, sustainable and economic priorities of development plans, the trade-offs and synergies across policy areas, and the collaboration and accountability across public and private sectors.

Figure 18.Three integrations at the heart of the INFF approach



Source: DESA

The question of the institutional functions that underpin these integrations and the capacities and systems they require is an important one. It is only with some form of institutionalization that the policy reforms to generate better outcomes from a flow of finance, or the benefits of dialogue between state and non-state actors, will be sustained over time.

The INFF approach was originally conceived by United Nations Member States as a concept to be incorporated within and tailored to national institutions and the local context. As such, analysis across the countries using the approach shows a wide variety of ways in which the institutional functions to implement and realize the full potential of the approach are being developed.

Previous chapters have considered many policy reforms, including SDG budgeting and embedding sustainability into the foundations of financial markets, and the capacities they require. This chapter therefore focuses on the institutional functions being developed in relation to integrated approaches across public and private financing policies, and integration and collaboration across public and private sectors, including transparency and accountability.

Governance and coordination

Ensuring effective governance and coordination structures is important for the design of integrated policies and delivering on financing strategies.

The functions at the heart of governance and coordination of a financing strategy speak to driving delivery of ambitious reform agendas, strengthening policy coherence, and deepening coordination and partnership, alongside enhancing participation, transparency and accountability (see next section).

All countries have existing structures in place for delivery, coordination and collaboration, and they are strengthening, adapting and complementing these in a variety of ways as they use the INFF approach.

Lao People's Democratic Republic, for example, has developed its financing strategy to support the implementation of the country's ninth National Socio-Economic Development Plan (NSEDP).

The process of designing the financing strategy was led by the Ministry of Planning and Investment and engaged a wide range of actors. A total of 10 ministries and 20 national institutions, as well as 15 development partners, and representatives from the private sector and business associations, were involved in the process through a series of structured consultation discussions.[190]

These discussions helped shape the ninth NSEDP Financing Strategy 2023–2025, which was endorsed by the Prime Ministry and launched in July 2023. The Financing Strategy encompasses 54 actions across domestic public finance, international public finance, domestic private finance and international private finance, covering thematic issues including education, health, and green and climate finance.

The ninth NSEDP Financing Strategy includes guidance on implementation arrangements, specifically 1) identifying seven existing coordination mechanisms—including intra-governmental structures,[191] as well as government-partner mechanisms such as the Macroeconomic Sector Working Group and the Lao Business Forum—that are well-placed to coordinate and monitor progress in implementation; 2) specifying that reporting is to take place at least annually on three levels (regular reporting by lead entities for each action, annual or semi-annual reporting to one of the seven coordination mechanisms, and annual reporting as part of the annual NSEDP reporting process to the National Assembly); and 3) emphasizing that 8 of the 54 actions in the Financing Strategy itself would make a significant contribution to increasing the coordination of development financing decisions.

As the focus shifted from the question of design to implementation of the strategy, the Government recognized the need to review the structures for coordinating implementation. A total of 90 percent of the 54 actions require the involvement of more than one government department, while 60 percent are relevant to at least two policy areas and 28 percent to more than two policy areas.[192] As such, the Government wanted to ensure efficient and effective cross-government structures were in place for governance, coordination and monitoring of the financing strategy.

The Ministry of Planning and Investment, together with the Ministry of Finance, with technical support from UNDP and the United Nations Resident Coordinator Office, and engagement from the World Bank and the Asian Development Bank as co-chairs of the Macroeconomic Sector Working Group, organized a high-level dialogue to further define the governance and coordination mechanisms and key steps that would enable successful implementation. The outcome was a tripartite plan outlining governance, support structures and integration into the forthcoming tenth NSEDP. This sets out the establishment of a financing strategy secretariat, housed within the Ministry of Planning and Investment, and working closely with the Fiscal Policy Department of the Ministry of Finance. This will assist delivery, coordination and regular reporting, as well as liaison with the Macroeconomic Sector Working Group and other mechanisms. Regular reporting to the highest levels of Government is designed to enable effective oversight, with implementation of the financing strategy a standing agenda item in Cabinet meetings, and progress updates channelled to the National Assembly via the NSEDP mechanism.

Through these measures, the Government of Lao People's Democratic Republic has determined processes that are embedded within, and build on, existing structures, in order to ensure effective management and coordination of the Financing Strategy.

"The key value of the Financing Strategy comes from its integrated nature, bringing together all parts of the Government, development partners, private sector and related stakeholders, to prioritize and resolve trade-offs."

H.E. Phonevanh Outhavong, Deputy Minister for Planning and Investment, Lao People's Democratic Republic

The Maldives is also establishing a new unit to coordinate delivery of its financing strategy, born from the process of dialogue and integrated policymaking during the design phase. The Sustainable Finance Hub builds on the experience of integrated policymaking led by the Ministry of Finance while the financing strategy was being designed. It will be housed in the Ministry of Finance and coordinate implementation in relation to the country's development plan and NDC, in close collaboration with the Ministry of Environment, supported by an advisory board of experts.

In other countries, different approaches are being taken. In Benin, the INFF works through the Resource Mobilization Committee and its support unit and secretariat under the political direction of the Council of Ministers. It coordinates across all consultation frameworks, with the private sector, civil society, banks, partners, diaspora and local authorities, to implement the country's financing strategy. Indonesia is establishing an SDG financing hub in the Ministry of National Development Planning. Pakistan has focused on capacity-building across federal and provincial levels, in order to develop a coherent approach to its public finance management.[193]

These examples and others show that the design and process for establishing the institutional functions of an INFF is unique to each country context. In some contexts, the approach is more top-down and formalized from the outset, while in others it develops more organically, building on the process of dialogue and engagement around key financing issues. Nevertheless, a number of common elements can be identified across key institutional functions.

The nature of the INFF approach is that it cuts across many policy areas and responds to large gaps in financing within a complicated financing landscape. As such, INFFs are necessarily ambitious and complex. To drive delivery of these frameworks, then, the governance and coordination structures that Governments use must be of a sufficiently high level, and it is vital that they have the convening power to bring the relevant policymakers and partners together, the authority to advance the reform agenda, and the capacity to coordinate it.

Mainstreaming social and sustainability priorities across financing policies, and managing the synergies and trade-offs that exist across policy areas, requires effective forums for exchange. Policymakers and stakeholders must often come together to deepen their understanding of other policy areas before meaningful change and innovation can be discussed and shaped collectively. Financing dialogues that engage a wide constituency of state and non-state actors are central to the process, and the forums in which they are convened must provide the process, space and time for integrated policymaking to take shape and be tested, and for consensus to build.

Moving forward, a growing number of countries are focusing on how to monitor their financing strategy into the future. While many countries have implemented reforms to enhance the monitoring of individual areas of financing policy (as explored in chapters 1 and 2), few have yet established systematic ways of tracking financing for sustainable development comprehensively across the landscape. It is expected that a small number of countries may publish the first in what are planned to become annual monitoring reports in the year ahead.

Box 19. Civil society perspectives on INFFs

The Civil Society Financing for Development Mechanism (CSO FfD) engages with the global FfD process to represent the views from civil society networks across the world. Their members respond to the systemic injustices that deprive Global South countries of resources urgently needed for combating poverty and inequalities, upholding human rights, and participating in a just transition to a safe planetary future.[194]

A number of civil society organizations (CSOs) within the CSO FfD have been engaging with the development of INFFs to assess their evolution and application. CSO FfD reviews of the INFF guidance documentation has focused on three concerns:

1. Diverting attention from global level policy issues.
2. Encroaching on the policy space of Governments and people in the Global South.
3. Being a Trojan Horse for policy reforms.

These concerns are important, and both the use of the INFF approach by Governments at the country level, and the support offered to Governments around INFFs by the international community, must take them into account.

True transformation in the financial system that equips countries to mobilize the sustainable, inclusive investments required to achieve the SDGs, requires reforms at both the national and international levels. As progress is made in financial system reform through INFFs at the country level, this has the potential to inspire and accelerate further reform in systemic issues at the international level—but INFFs must not dominate policy dialogues at the expense of discussion and decisions on international issues.

International support for INFFs must reinforce and respond to them as country-led initiatives. This is emphasized in key INFF agendas including the G20 Framework for voluntary support to INFFs and is also built into the demand-led focus of the work of the INFF Facility. Nevertheless, it will be important to retain practical checks, including promoting enhanced engagement by CSOs in national INFF processes and continued engagement with CSOs through the INFF Facility.

The potential for harmful reforms within INFFs is a risk that should be mitigated through the design of multi-stakeholder, inclusive and representative processes at the country level. INFFs should be designed as a platform that enhances transparency and engages a wider constituency of actors in finance policy design, focusing attention on more sustainable, inclusive investment.

Participation, transparency and accountability

Greater participation in finance policymaking is at the heart of an integrated, impact-oriented approach to financing. Broadening the constituency of actors engaged in shaping financing policies offers the potential for more inclusive design and delivery of financing policies and can help to mitigate risks. It can boost innovation and provide a catalyst for greater collaboration between actors.

Financing dialogues underpin the design of the financing strategies at the heart of INFFs, the financing policy reforms they put forward and the diagnostics on which they are based. Over the course of the assessment and design process, these dialogues bring the policymakers responsible for each area of financing policy together with civil society, the private sector, think tanks, IFIs and development partners to discuss opportunities and challenges across the financing landscape. They inform the design of specific policy solutions as well as a forum for monitoring implementation.

Both CSOs and private sector actors engaged in financing dialogues in at least 50 countries over 2023 and early 2024,[195] alongside other actors such as academics and the media.

The Philippines, for example, hosted multi-stakeholder dialogues to shape a national conversation about financing priorities using the INFF approach. CSO engagement in the dialogues and in relation to the country's DFA has helped bring the voices of marginalized communities that are often beyond the reach of government services and private sector investment to finance policy discussions. The DFA provided access to information for a wide array of partners on where SDG investments are being made and where there are gaps in public and private investment. A series of financing dialogues offered a platform for robust exchange on priorities and opportunities for collaboration to inform a roadmap for SDG financing.[196]

"INFF in partnership with different stakeholders, public and private, can be a robust platform for frequent and regular exchange of information, ideas and collaboration across the board."[197]

Elvin Uy, Executive Director, Philippine Business for Social Progress

The combination of greater transparency and wider participation in financing dialogues by representatives of lower income of vulnerable communities, or advocates for environmental, sustainable and social issues, provides the potential for more inclusive, sustainable policymaking and greater accountability.

Several countries are implementing reforms that could help institutionalize this beyond discussions during an assessment or leading up to the design of a financing strategy alone.

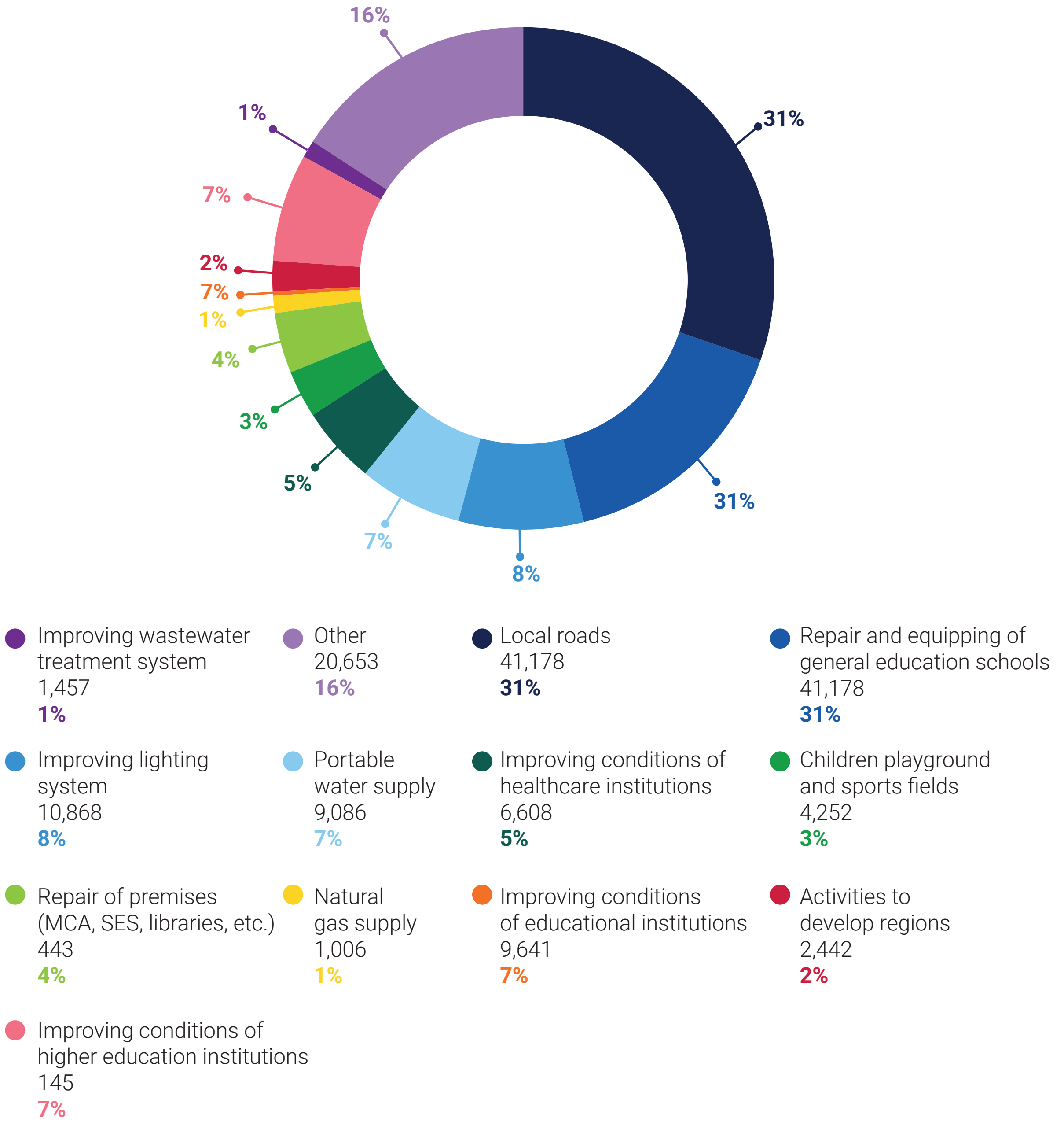
Uzbekistan, for example, is using the INFF approach in support of the Government's Development Strategy 2022–2026 with a focus on delivering on climate commitments and social inclusiveness during the drive for economic modernization and market privatization. Led by the Ministry of Economy and Finance and Agency for Social Protection, the Government is currently in the process of revising its financing strategy.

Governance and transparency have been identified as one of four critical areas for successful economic transition,[198] and the INFF emphasizes transparency, avoiding conflict of interest within the civil service, and enhanced public participation and cooperation with civil society.

Budget impact and transparency is a crucial component of the strategy. Apart from efforts to enhance SDG alignments in its public budget ($4 billion increase from 2020 to 2022), the Government has also striven to improve budget transparency. Since 2018, the country has started publishing regular citizens' budgets, disclosing comprehensive information on revenue collection, the volume and areas of public expenditures, execution of local budgets and the budget deficit, alongside key outcome indicators and with a designated section on the SDG alignment of the budget. Within the frame of INFF, beginning in 2022, participatory budgeting practices have been scaled up in all districts of the country. Every year, citizens can nominate and select proposals to be financed from the budget in two cycles (figure 19).[199]

Regarding climate change, the Government carried out a Climate Public Expenditure and Institutional Review[200] to shape the integration of climate change concerns in the national and subnational budget allocation and expenditure process. As part of the review exercise, It has launched the Climate Change Budget Integration Index Assessment to measure the level of climate change's integration into national PFM systems. The citizens' budgets, for example, now include reporting on positive and negative expenditures in relation to climate change.[201] The implementation of these reforms not only helped the Government to better understand the links between budgetary outlays and climate objectives, but also enhanced its capacities in budget execution, assessment and reporting, paving the way for increased budget accountability.

Figure 19. Participatory budgeting in Uzbekistan



Source: Uzbekistan, Ministry of Economy and Finance, and UNDP, Citizens' Budget: Execution in 2022 (Tashkent, 2023).

Note: The figure shows the focus of projects nominated by citizens within the participatory budgeting initiative.

On the capital market front, Uzbekistan has made significant strides, becoming the first country in the region and the second globally to issue sovereign SDG bonds worth $235 million in 2021,[202] subsequently releasing its first *SDG Bond Allocation and Impact Report* in 2022. Following its success, Uzbekistan issued inaugural green sovereign Eurobonds worth €350 million on the London Stock Exchange.[203] Aside from raising new sources of financing, these practices helped enhance the Government's capacity to increase transparency, efficiency and accountability through sustainable project identification, stakeholder consultation, allocation and disclosure of proceeds' use, management of financial and non-financial risks, and reporting on impacts and results.

To harness private and blended finance for the SDGs, Uzbekistan is currently exploring reforms in areas such as faith-based financing, green and gender-focused funds, a legislative framework for equity funds, capital markets development and insurance market development. Financing dialogues across the Government, the private sector, the non-profit sector, development partners and others will ensure continued ownership and coherence of formulation of future policies which enable a level playing field, open competition, and profound understanding and acceptance of SDG integration.

"Our overarching goal for the next five years is to increase the country's GDP per capita by 1.6 times and to join a group of upper-middle income countries by 2030 ... We expect that INFF will help us to build a holistic approach for mobilizing and streamlining public and private finance as well as strengthening the dialogue across the Government, private sector and civil society."[204]

Mr. Akhadbek Khaydarov, Deputy Minister of Finance, Uzbekistan

Lesotho has placed a strong focus on financing for gender equality in its INFF. The Government recognizes the importance of gender equality and inclusion in national development.[205] However, despite the relatively high female literacy rates and affirmative policies, women in the country still face challenges such as limited access to high-income opportunities,[206] disproportionate exposure to climate risks,[207] and barriers to accessing tailored financial services[208] and affordable remittance transfers.

At the same time, Lesotho's main revenue streams, such as receipts from the Southern African Customs Union and ODA, have been shrinking, resulting in a growing fiscal deficit and an increase in public debt. The country's reliance on these declining revenue sources underscored the need to find alternative and reliable means of mobilizing resources to ensure the country's fiscal stability and sustainable development.

In this context, the Government of Lesotho is using the INFF process to link planning with finance, strengthen public-private collaboration and promote effective financial management, while mainstreaming women's empowerment into the financing architecture of the country's development plans.

The Government of Lesotho is in the process of developing a financing strategy that aims to bridge the LSL 3.3 billion financing gap for implementing the National Strategic

Development Plan II and advancing the SDGs.[209] This builds on the earlier DFA, published in 2022.[210]

More than a quarter of the recommendations from the DFA targeted women's empowerment and gender equality in mechanisms and decision-making for financing development.[211] One of the areas prioritized was the completion of comprehensive gender audits, to assess the effectiveness of government gender policies and lay foundations for advancing gender-inclusive programming and budgeting.

The audit has resulted in recommendations being put forth to revise the labour regulations within the Ministry of Public Service. The findings from the ongoing audit of other ministries will serve as a vital tool for advocating policies and implementing programmes that promote gender equality and empower women in the public service sector. The pilot ministries included in the audit are the Ministry of Finance, the Ministry of Development Planning and the Ministry of Gender and Youth, Sports and Recreation. Moving forward, the Ministry of Finance has pledged to pilot gender-responsive budgeting reforms.

At the same time, a partnership framework has been developed to facilitate collaboration with CSOs. Building on other recommendations from the DFA, this aims to encourage greater citizen engagement in budget accountability, with a focus on gender equality, climate change and other cross-cutting issues, alongside the implementation of other reforms shaped through the INFF process.

Through the operationalization of the gender-sensitive financing framework, the Government of Lesotho is seeking to promote fiscal sustainability, stimulate private sector resilient growth, foster partnerships for sustainable development and empower women.

The examples from Uzbekistan and Lesotho illustrate an imperative for strengthened transparency and scrutiny of financing policies that is prominent in many other countries. In Mongolia, for example, the National Audit Office has adopted SDG performance audits and the financing strategy prioritizes the engagement of CSOs to enhance participation and inclusion through a variety of mechanisms, including membership of state-owned enterprises' boards of directors, monitoring the number of ministries whose budget is monitored by CSOs, and building CSOs' capacity for monitoring SDG finance.

Greater engagement of the private sector in financing dialogues is an important catalyst for unlocking and aligning private investment that can accelerate SDG progress. Previous chapters have shown how many of the reforms being advanced through INFFs are embedding sustainability and inclusivity into market structures, investment opportunities and private sector operations.

Nevertheless, it is important to recognize the potential risks of enhanced private sector engagement with finance policymaking, if appropriate safeguards and accountability systems are not in place. Facilitating greater private sector access to policy design can offer opportunities for private capture by vested interests. Engaging private capital in the provision of public services can potentially result in cost increases and reduced access to vulnerable or marginalized communities. Participation in SDG-oriented processes may provide greenwashing or SDG washing opportunities, where companies present a positive picture of their sustainability credentials without making any changes to their business models.

To mitigate these risks, it is crucial that there is transparency and accountability throughout the process, from diagnosis of finance policy priorities, through the design of policy solutions to address these priorities, to implementation and monitoring of the changes made and outcomes realized. Access to information and participation in these processes by representatives of vulnerable and marginalized communities, and advocates of environmental, sustainable and social priorities, is crucial to ensure a focus on enhancing sustainability and inclusivity throughout.

This also speaks to the value of institutionalizing ongoing dialogue. The voices of vulnerable and marginalized people should be engaged not only in the design of reform packages that are subsequently advanced in their own separate processes, but also through ongoing oversight over the INFF approach as a whole. It is therefore important that countries consider how to institutionalize structures for ongoing dialogue on progress with the INFF approach involving a representative multi-stakeholder constituency of actors.

Recommendations for FfD4

Recommendations for the FfD4 outcome:

1. *Promote stronger public and private institutions at the country level that are equipped to mobilize and align financing for the future.*

2. *Promote INFFs as a platform to engage a broader constituency of actors in policy decisions for more sustainable, inclusive finance at the country level, and to enhance transparency and accountability.*

Recommendations for Governments:

1. *Strengthen incentives across the public sector for reform of institutional structures and an enabling environment that promotes sustainable finance.*

2. *Strengthen institutional systems to coordinate and manage the trade-offs and synergies of financing policies across government.*

3. *Enhance platforms for multi-stakeholder participation and dialogue throughout the finance policy cycle, to strengthen innovation and ensure sustainable, inclusive policy design processes.*

Recommendations for civil society:

1. *Engage with INFF processes to help shape policy reform and changes to the public and private financial system in ways that truly respond to the needs of the marginalized and most vulnerable people, and which address environmental and sustainability concerns.*

Recommendations for the international community:

1. *Respond to country demand for technical support to strengthen public and private capacities for sustainable finance in line with country-led INFF priorities, particularly in LDCs, SIDS and LLDCs.*

Annex. Further methodological notes

Chapter 1 presents preliminary data on the financial outcomes emerging from INFFs, with a particular focus on a selection of policy reforms in 17 countries. These reforms can be shown to have been shaped through the INFF process, for example, where reference is made to INFF in documentation around the reform itself and/or where government documentation as part of the INFF process shapes a reform that was subsequently taken forward.

Understanding the scale of the outcomes emerging from INFFs is challenging, and many of the most transformational impacts on institutions and systems may be impossible to quantify. Nevertheless, the report attempts to gauge the scale of some reforms emerging from INFFs in the shorter term by looking at what can be quantified with respect to financial alignment and leverage.

Alignment, i.e. improvement of SDG outcomes due to a change in how a type of finance is spent or invested, is very difficult to quantify. This is due to the challenge of tracing the connection between a specific flow of finance and a specific SDG outcome in isolation from other factors that also influence that outcome, as well as frequent long lags between changes in how finance is spent or invested and the resulting outcomes.

In lieu of this, the report has quantified two types of change as proxies for alignment.

For some countries, we see that improvements in systems designed to enhance alignment have resulted in an immediate change in financial allocations. Mongolia's increase in budget allocations for ministries with strengthened programme budgeting systems is an example of this.

'Scope for alignment' refers to the volume of spending or investment with credible potential to be aligned with the SDGs through an enhanced system. In reference to the public budgets, this may be the total volume of public spending that passes through a strengthened budget process to create enhanced SDG alignment. In reference to private finance, this may be some proxy of the size of the businesses that have adopted or are required to adopt sustainability reporting. For example, firms listed on the Mongolian Stock Exchange that are now required to publish sustainability reports have a combined market capitalization of over $3 billion.

Leverage refers to the generation of new resources as a result of a particular policy intervention. The ease with which this can be understood varies depending on the type of policy reform. For some policy areas such as bond issuances, it is relatively straightforward to isolate the resources that have been mobilized due to the intervention (though in the case of, for example, an inaugural thematic bond issuance, there may be questions about whether a different type of bond issuance would have gone ahead if the policy change to support a thematic bond issuance had not been implemented). In other policy areas, it is more challenging to isolate the connection between policy reform and leverage of new resources. For example, tax administration capacity-building may mean greater efficiency in tax collection, but any increase in revenue is also a factor of wider economic trends.

The aim of the report therefore is not to arrive at a definitive estimation of the precise scale of the outcomes caused by INFFs. Rather the aim is to highlight, in a 'broad brush' approach, a rough gauge of the scope at which INFFs can be understood as influencing the financial ecosystem and eventually redirecting financial flows at scale.

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